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THE ECONOMIC AND BUSINESS FOUNDATION

**A Foundation for Economic and Business
Education and Research**

Publication No. 8

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**AMERICAN
ECONOMIC AND BUSINESS
POLICIES**

THE ECONOMIC AND BUSINESS FOUNDATION
(Incorporated)
New Wilmington, Pennsylvania

THE ECONOMIC AND BUSINESS FOUNDATION

The Economic and Business Foundation was incorporated in 1940 as a non-profit organization for the discovery and dissemination of economic and business information. The charter of The Foundation is broad, authorizing it "to conduct, sponsor, and promote education and research in economics, business, finance, political science, sociology, government, and all allied fields of knowledge and activity, by all effective means and methods." The program of The Foundation includes the following:

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The Effect of the Revenue Act of 1945
on
Corporate and Business Policies

J. K. LASSER
PAUL W. ELLIS
JOSEPH S. BOWATER

OPENING REMARKS

by

JOSEPH S. BOWATER

Secretary and Treasurer
Mathews Conveyor Company

I appreciate the invitation to preside at this opening session of the discussion of American Business Policies sponsored annually by The Economic and Business Foundation. We are gathered here today to deliberate on the effect of the Revenue Act of 1945 on business and corporate policies, and that places us in a taxation atmosphere which is not exactly a new experience for most of us.

Taxation, like the weather, has perennial interest, if only as a convenient excuse for the good old American custom of casual grumbling; but today the interest in taxation is greatly intensified, and so it should be. Public interest in public matters ought always to be commensurate with the importance of the problem. Surely you will not deny that the adjustment of the war-time taxation system to the transition and post-war period has been, and is, a national problem of the very first magnitude.

Not so long ago, we were a nation confronted with another and less inviting tax problem, the expansion of the tax system to meet the vast needs and emergencies of war. The figures representing the cost of guns, carriers, battleships, bombers, and atomic bomb plants are beyond our comprehension; and the resulting national debt will remain a burden upon many, many future generations. In spite of this, however, it may be a most shortsighted policy for our nation not to continue such expenditures as may be required to maintain the peace.

It seems unbelievable — when we read that in the hundred and fifty-six years of our nation's existence, wars have caused four-fifths of our national government expenditures — not to mention other more serious human losses. It is obvious, therefore, that the reducing and abolishing of war would go much further in relieving our tax burdens than all of the tax whittling of the past century.

It behooves us, each and every one of us, as people vitally interested in taxes, to get terribly concerned about our national problems and unite with all men of good will to root out the primary causes that waste not only taxes but also human efforts, and the life blood of almost every family in the land.

We are extremely fortunate in having scheduled as our luncheon speaker one who is an outstanding authority on corporate taxation and has also devoted considerable time to the study of personal tax problems. J. K. Lasser, of J. K. Lasser & Company, is the author of many books on the subject of taxes and has, no doubt, in that way assisted a great many in this assembly. He is chairman of the Institute on Federal Taxation at New York University and has served on many tax committees of both state and national importance. Following his talk our discussion will be conducted by Paul W. Ellis, Professor of Economics at Bethany College. It gives me great pleasure to present Mr. Lasser.

THE EFFECT OF THE REVENUE ACT OF 1945 ON CORPORATE AND BUSINESS POLICIES

J. K. LASSER

J. K. Lasser and Company

What I should like to do, with the time allotted to me, is to be enormously practical and talk to you about the control of tax payments through intelligent planning. That is what the people on my side of the fence and you have to discuss every day of the week in ascertaining the effect of these Acts upon business. I have divided my subject into four parts — tax control through

Possible Reorganizations

Study of Your Old Excess Profits Tax Returns

Your Current Business Income and Expenses

The Way You Buy and Sell

Tax Control Through Reorganizations

Perhaps I can excite some interest on your part in the problems of tax control as an aid to business management by this — it is hardly a fact that you will be through with the excess profits tax after 1946. If you lose money in 1948, you may automatically affect excess profit taxes through the net loss carry-back that you all know about, or, if you do not, will permit me to explain later. If you lose money in 1948, and it carries back to 1946, you automatically effect an excess profit credit, and thereby, you may begin to get back the 1944 and 1945 excess profit taxes.

A part of our new law stops the excess profits tax on January 1, 1946, except for the purpose of computing an unused credit, if it exists, in your company. That may refund to you the 1944 and 1945 taxes, the excess profit taxes that you have paid, if you have an unused credit in 1946.

Our Congress thus offers you an unusual quantity of corporate control, because of the carry-backs. For example, our losses in 1946 may affect our unused credit carry-back in 1944, which, in turn, would affect the excess profits taxes we paid in 1942. Therefore, in 1946, you gentlemen are going to be considering, not only your 1946 taxes and your 1944 and 1945 taxes, but perhaps, also, your 1942 and 1943 taxes.

Thus the money you lose in 1946 may have something to do with the taxes you paid in 1942, 1943, 1944, and 1945. Perhaps I am thus

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encouraging you to lose a lot of money in 1946. At least, I should like to encourage you to recognize that the control of taxes can have a great deal to do with business management, if your technicians understand these technical features I have been discussing.

A great deal has been said lately about the competitive injustice of these carry-backs, and about the entire averaging system that Congress has created. A great deal has also been said about the corporations who are going to be penalized, particularly those who did not pay large war taxes, or those that are new today, because they cannot get the carry-back, the refund of taxes that will be had by the old corporations. I trust you understand that competitive injustice. To repeat, if an organization in 1946 loses one million dollars, it is conceivable that it may secure a refund of the taxes it paid all the way back to 1942. But if it paid no taxes, or if it is a new business, it is going to have to finance its own development. In the case of the first company, however, our government can help to finance the development, even to the extent of refunding the entire amount of taxes a corporation paid in the war years beginning with 1942.

It is not completely true that all the cards are stacked against the company that did not make a lot of money in the war, or the new company. If its tax planning or tax control is correct, you will probably find that the new fellow can do enough things today that will cut his tax so deeply that he may have a decided balance over the old company. For example, recognize the tremendous disparity created between small corporations and the large corporations. Our low tax rates may run all the way from 23 per cent, to an aggregate of 38 per cent, or a high of 38 per cent. The small corporation may secure the beneficence of Congress, and the large one would not. The newcomer in the field may secure full advantage of that by a process of division of his company. The old fellow cannot secure it without getting into difficulties with the law.

Here is another competitive injustice: the tax cost of partnerships verses corporations today. Under our new law the corporation pays a top of 38 per cent; but the partnership, or the individual proprietorships, may pay a great deal more than that.

COMPARISON OF TAX LIABILITIES AT SELECTED LEVELS OF INCOME UNDER 1946 RATES

Married Individual in Business*				Corporation			Each of Two Equal Partners**		
Income	Tax	Eff. Rate	Top Bracket Rate	Tax	Eff. Rate	Top Bracket Rate	Tax	Eff. Rate	Top Bracket Rate
\$ 2,000	\$ 190	9.5%	19.0%	\$ 420	21.0%	21.0%	\$ ---	---	---
5,000	798	16.0%	20.9%	1,050	21.0%	21.0%	285	11.4%	19.0%
15,000	4,047	27.0%	40.9%	3,350	22.3%	23.0%	1,435	19.1%	28.5%
24,000	8,522	35.5%	56.1%	5,500	22.4%	25.0%	2,869	23.9%	36.1%
50,000	24,795	49.6%	68.4%	19,000	38.0%	53.0%	9,082	36.3%	56.1%
100,000	63,128	63.1%	82.7%	38,000	38.0%	38.0%	24,795	49.6%	68.4%
500,000	407,465	81.5%	86.5%	190,000	38.0%	38.0%	191,340	76.5%	86.5%
1,000,000	839,715	84.0%	86.5%	380,000	38.0%	38.0%	407,465	81.5%	86.5%

*No Dependents

**Each Partner Married with no Dependents

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For example, my figures indicate that an individual operating a business with a net income of \$100,000 can pay 63 per cent average tax, and be in an 82 per cent top bracket, while a corporation would pay only 38 per cent. Or, if two individuals had that partnership, earning that \$100,000, the top bracket would be 68 per cent, and the effective rate over all, 49 per cent. If you get a partnership earning \$1,000,000, you get 84 per cent average, as compared to a 38 per cent average.

Partnerships, therefore, are in a pretty bad state for the moment. Of course, there is nothing within the law to prevent them moving into corporate structures; and it is fortunate that partnerships can move, not only into one corporation, but to two or dozens, as it suits them, in order to get full advantage of the existing disparity in rates between the small corporation and the large corporation under this new law. I suggest that over these next couple of months, we will witness a great transfer from the partnership structure. In that move we shall have a decent discussion of the number of corporations we want to have. Also, we shall have a lot of discussion as to whether we want to keep up the partnership and also have a corporation. I should be glad to talk more about those if you like, or if you are not entirely clear on what I have said.

Another problem in corporate control involves fiscal year operations. One of the freaks in a transition period of this kind (moving from an excess profits tax to a 38 per cent rate) is that we may hit very savagely at corporations who adopted a fiscal year — that is, a year not ending on December 31. In that case, of course, excess profits taxes are pro-rated. A great competitive injustice may be met where the income of the fiscal year corporation is lodged entirely after the period January 1, 1946. In the case of the calendar year corporation, that income is going to be taxed at the 38 per cent rate. But the fiscal year corporation, under this law, is going to pay a pro-rated excess profits tax. That again, forces you to think in terms of tax control as an aid to management.

How can you take a fiscal year corporation, subject to that injustice, and move it to a position where it pays the excess profits tax only for the period ending before December 31, 1945? Obviously, that means mergers or consolidations with others or within your structure. It may mean reorganizations.

I have been talking about some things which involve vast corporate changes, dividing companies, transferring partnerships to corporations, consolidations, and mergers. A great many problems have arisen that are a result of the passage of this law. I cannot talk about changes without, in the same vein, saying that changes are treacherous unless you thoroughly understand their impact.

For example, were you to make the change and suffer a net operating loss after the change, you would get none of the advantages

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of the net operating loss that are had by the company continuing in business. If a partnership changes to a corporation and the corporation has an operating loss, you cannot get a return of the taxes paid by the partnership. If you divide one company into a dozen and any one of them sustains losses, you will not secure the return of the taxes paid by the company preceding the division.

The tax law is full of pit holes. They make it pretty necessary for you who are studying possible changes to look carefully at a hundred things that might happen.

Tax Control Through Study of Your Old Excess Profits Tax Returns

Repeal of the excess profits tax leaves the profits tax in the hands of the curious breed of people who are called tax men, treasurers, or comptrollers. From here on, they have the problem of seeing to it that the interests of their companies are fully protected.

This is a highly complex thing — our excess profits tax law, and it is a fact that pretty nearly every line of the regulations issued by the Treasury Department concerning the excess profits tax law are disputed by some very competent analysts.

I have learned over a great many years in dealing with these regulations that tax men are about half right in the controversies that we raise.

We are just about half right, when we have seriously raised a problem as a result of real research on our part. If we are half right, then it must be perfectly obvious that a great many things which are being done today by you are going to be deemed altogether incorrect by our courts, as they review this five-year period we have just had in excess profits taxes.

Unfortunately, the interpretative period, the period to find out what the excess profits law means, is going to go on for a decade. It will be somewhere around 1950 before you and I will begin to understand the excess profits tax law.

In the last year, you must have read a dozen decisions which must have been startling to some people because they upset Treasury rules. But on our side there were men who were pretty much annoyed because there were only that dozen and, because in that dozen, the courts did not go all the way we thought they should.

Within the next five years, we are going to get our real interpretations. What do you do about it in the meantime? One of the dreadful nightmares of making up tax returns or having anything to do with them is an awakening to the fact that we might have done something, but did not do it. Our problem, therefore, is to protect ourselves through this period of controversy, this ending of the excess profits tax, so as to make sure that when these rules arrive five years from now, we will be in a position with our own returns to claim all the advantages that

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the courts give us. That means, that you had better understand the particular rules of the courts as to the way in which you make claims. You want to make very certain also that you know exactly how to present them and when to present your claims.

Perhaps it also means that you had better follow pretty seriously some of the so-called students who make a habit of inscribing, pretty regularly, the list of those controversies as they exist, because the nightmare may well descend upon you.

I can take sections of an excess profits tax law, if you would have me do it, and point out to you some of the very serious difficulties which exist. For example, one of them, just to startle a lot of you who have Section 722 claims — there is a belief that the normal tax is never affected when Section 722 produces a lower excess profits tax. That is, some hold that the normal tax remains the same.

I will not read my list of the controversies that technicians have with the Treasury Department. They will be found in the record (See appendix). I want only to leave you with a clear cut impression that the end of the excess profits tax law does not mean the end of serious thinking about it.

If you are extremely wise, your study will be of two things: One, how do I protect myself in this period? Two, how can I find out all about these controversies so as to make certain that my protective devices contain a reference to the controversies?

Tax Control in Business Income and Expenses

I should like to move back to problems concerning tax control as they arise under this Act. I have here a good bit of check list material, which is intended to say what to do to pay a minimum of taxes. Here are points to watch.*

Study your sales methods—be sure to include sales in income only when your merchandise is shipped.

Don't take advance deposits from your tenants, customers, or contractors unless you are prepared to pay a full tax on the receipt. If you have unrestricted use of the money, it may be taxed to you. But your deduction of expenses incurred to earn the deposit may have to be spread over the life of the contract or lease.

Remember that unrestricted advance payments and rentals are income even though you report on the accrual basis. That rule implies that we may look for advance income in years when our business has lost money, for their judicious inclusion will take income from otherwise higher taxed years.

*The material listed below is abstracted, with permission, from books written by Mr. Lasser and published by Simon & Schuster, Inc.

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It may be better to include the payment when tax rates are lower. How do you get the money in advance and yet avoid tax? The particular rules covering rent will explain some of the principles. Note this if you do not want rent income to be taxed now. Do one of these: Arrange your lease with your tenant so that the receipt will be either a deposit held to be returned intact upon full performance by the tenant; arrange for a loan to a landlord fully evidenced by a note bearing interest.

The law says you have no income from the recovery of a bad debt, taxes, or a great many other items if they were charged off or deducted in a previous year when they did not reduce your taxes. This usually happens in a year in which you had a loss. Be sure you start early on a review of your accounts to carefully segregate all adjustments of deductions taken without tax advantage.

If you are on the accrual basis, you do not have to accrue **uncollectible** items. These items do not constitute income.

Note this if you have had a fire or other destruction of property or a condemnation in the war effort. You can avoid payment of tax on gains if you expend the insurance proceeds or awards to **replace your property or place them in a fund** approved by the Treasury for replacement.

Sometimes income that you might secure by suits or actions is not taxed. For instance, recoveries for property damage which really represent a return of capital are not taxed. But damages paid for a loss of profits that might be secured in a business transaction are taxed.

Take a good look at your accounting methods. Are you taking full advantage of the accounting alternatives the law gives you? For example, do you know about your right to use the installment sales and long term contract income process? Treasury approval of your right to change over to these may defer present day income to the postwar period.

In settling or adjusting sales contracts, you sometimes have the option to reduce prices in a later period **or to reduce profits of this year**. A settlement of the amount due this year on an old sales contract (which reduces income in high tax year) is often much better than to agree to cut unit prices in a period of low taxes.

Not all of your income items or adjustment of your business accounts are income. Study the following list to find what income secured by you can be eliminated in preparing your tax return:

Accrued interest on bonds, notes, etc., paid for upon purchase of an asset, and subsequently collected.

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Appreciation of value of property recorded on the books but not yet realized by a sale or exchange of the property.

Bargain purchase in some cases.

Disputed debt, when settlement is not the type of forgiveness which creates income.

Disputed income. The dispute must be settled by litigation or otherwise, before it is taxed to you.

Entries in the books creating gain arising from exchanges or reorganizations where no gain or loss is recognized in the law. The new property must be substantially a continuation of an old investment still unliquidated. That would be true in reorganizations where the new enterprise, the new corporate structure, and the new property are substantially continuations of the old. The law makes specific provision for the case where, in addition to property received tax-free on such a continuation of investment, there is received to boot, other property or money. In such a case the gain is recognized to the extent of the boot but no loss of any kind is recognized.

Erroneous income resulting from incorrect preparation of returns in prior years. With increasing tax rates, a severe penalty may result from failure to compute income properly each year. If you made errors or if new decisions change prior years' profits so as to reduce this year's income, you can elect to submit amended returns for some years so as to take full advantage of the law. Payment of taxes for back years may be very helpful this year.

Escrow—Income held in. It is not included until available to you.

Exchanges—you pay no tax if you exchange business or investment property of like kind and use for other such property, such as one building lot for another, even if your property has tremendously increased in value over your cost. Trading in your old truck for a new truck, for example, comes under this rule. But if the trade-in allowance is actually less than the depreciated cost of the old truck, the loss is recognized if you first sell the old truck for cash and then purchase the new truck as a separate and distinct transaction.

Income whose fair value is not "capable of being ascertained with reasonable certainty." Thus there might be no tax where you have entered restrictive agreements that make sale or negotiation impossible or require deposit of the property with disinterested persons until clearance under the agreement.

Income assigned to you—if the property creating the income was not assigned to you.

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Income that is indeterminate. You cannot be taxed until the amounts are determined and are available to you.

Restricted, indeterminable, unavailable or disputed income.

You pay your tax when the income, gains or profits are fully available to you.

Uncertain income—for example, payment in notes or property which have no fair market value at the time of receipt. Notes which serve as mere evidence of the debt, and not as payment of the price or compensation, are not income. You have no income if you get non-negotiable notes or notes that are not enforceable or collectible in the year of receipt. Find if they are marketable before you consider them income.

Business organizations must carefully study all of their transactions to see which income can be classed as being received without tax benefit. If you understand those rules, you may often be willing to enter into transactions that would otherwise be avoided because you deem them too costly in taxes due.

Some expenses can be controlled and placed in the year in which they will give you the most benefit. You may elect to spend money this year for repairs, redecoration, advertising, etc., or delay such expenditures until next year, if they will give you a greater benefit.

Does good business dictate that any of your expenses be rearranged so that your costs are based on a **percentage** of sales or of net profit? For example, can your rent be based upon a percentage of sales or profit? Your job is to control your costs so that they will be low when your net income is low.

In an era of high taxes, can you elect to spend freely to get business in later years? The Treasury holds that even new companies organized to do nothing but war work can divert profits to advertising and promotional expense **directed solely to patronage which might reasonably be expected in the future**. The approval was based upon recognition that expenses designed to protect present investments in your business are deductible.

If you operate on a cash basis, you should make actual payments of all expenses in order to secure deduction. **You may elect to borrow the funds to do that if necessary.**

The Treasury has authority under existing laws to allow accelerated depreciation, based upon overtime use and lack of adequate repairs resulting from wartime conditions. The indications thus far, however, are that wholly inadequate recognition will be given unless meticulous records are established to prove the need. You probably

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ought to consider the use of engineering experts, before the year end if necessary, to be assured of such additional allowances. Extraordinary wear and tear is caused by:

- Frequent overloading of machinery
- Operation by inexperienced personnel
- Deferred maintenance—adequate care is often impossible with priorities and shortages
- Inferior materials
- Use of equipment for purposes not intended

Recognize that failure to take increased depreciation when you should **will not stop** the Treasury from doing it when the need arises to increase tax. That may come when it finds that a higher allowance rate will increase your gain or decrease your loss on the sale of machinery or equipment. Amortization of 20% was allowed on facilities, constructed for aid to the war. A full loss may be taken if you effect complete abandonment of the facilities.

If you claim depreciation on plant and machinery made idle by the present economy—will it be approved? Apparently so—but probably at lower rates than when in use. Get ready now to prove the rate. You are entitled to a depreciation if your asset is "ready for use" even if idle because of present conditions.

Possibly present conditions warrant abandonment of an asset in 1945. That gives you a full loss of the asset; abandonment is not subject to the capital loss provisions. But a sale of an asset may give you the same result as an abandonment. If you are going to submit proof of abandonment, you must be meticulously prepared. Merely shoving machinery in a corner is not sufficient—**you must discard it or sell it** for its salvage value. Collect positive evidence that there was physical abandonment making re-use impossible.

You might study the replacement of machinery available today. New installations permit depreciation at present high tax rates. That may give you tax savings almost large enough to pay for the equipment. That process actually gives you maintenance of your facilities. A lot of people are unable to get it today with lack of equipment markets. If you can do it, and still take depreciation, you will be lucky.

The law provides that gains and losses from the sale of depreciable property (including land and buildings) used in business and held for more than six months, and the involuntary conversion of such property, other capital assets (such as destruction, seizure, theft, or requisition by the Government) are to be aggregated. If the gains exceed losses, the net gain is treated as a **capital gain**. If losses exceed gains, the net loss is treated as an ordinary loss and is deductible in full. The pro-

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vision is an unusual opportunity to reduce income in 1945 by sales of idle, obsolete, or excess equipment.

If you own assets (say machines or automobiles used in your business) and are about to trade them in, remember that a trade-in **produces no gain or loss**. If the allowance is going to be more than the depreciated cost of your asset, then trading is best, since the gain is not taxed. But if it is less, the best process is to sell the asset for cash to get the loss. Then use the cash to buy the replaced property.

The law still has the very generous rule that net operating losses sustained in 1943 and 1944 may be used to reduce profits of 1945. Were your losses in prior years the maximum you could get? **Present rates suggest a thorough review of prior years now to see if they were correctly established.** Don't wait until returns are prepared.

The taking of long term capital gains in 1945 can be very costly if you have 1943 or 1944 net operating losses. A long term capital gain is included in gross income at only half the amount of the profit. However, any operating loss brought into 1945 must be reduced by the half of the long term capital gain not included in gross income.

Before you **deduct** interest, taxes, or carrying charges on real or personal property (regardless as to what you do on your books), see if it would be better to **capitalize** them. Losses may do you no good or you may have prior year carryover losses adequate to wipe out current profit. If so, you can increase the cost basis of your asset by capitalizing.

Repairs to business or income producing property are allowed as deductions. Improvements must be capitalized. When repairs are part of a general plan of improvement, they are not deductible. **So don't undertake repairs at the same time as you improve property.** However, if it is necessary to do both at the same time, be certain the repairs are treated separately and keep accurate records to indicate exact cost of repairs.

Recent decisions re-emphasize the rule that first payments (when you owe both principal and interest) are for interest unless you and your creditor agree otherwise. That leaves the control of the deduction to your agreement.

Recent decisions approve a deduction for officers' salaries paid for services in a prior year when the company could not afford to make the payments. That may give added deductions this year.

Sometimes you gain tremendously, taxwise, by liquidating (in high tax years) obligations that will carry into more difficult postwar

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years. **For example—you probably can get an immediate deduction if you settle in cash** for the following:

Bad leases that are likely to be burdensome in the postwar era;

Contracts for services or materials that eventually will be an expense and difficult to carry in the postwar period; or sales contracts, difficult to perform at that time;

Many kinds of adverse litigation or contingent liabilities, and all related expenses. Liquidate them now when taxes are high;

Deductible taxes. Pay them now rather than postpone your right to a deduction for the tax and interest until the postwar years;

Obligations for a purchased asset that will not be used in the postwar period. See if you can get a present deduction by returning the asset and taking your loss now.

If you contest expenses (for examples, state taxes) you are not entitled to a deduction until the matter is settled. You have no deduction until your accrual is fixed and certain. Contests of expenses are obviously fraught with need for considerable study **if the deduction, in whole or part, is material to you this year.**

Many payments in law suits are not deductible; but recent decisions suggest that **compromise payments**, attorney's fees and similar expenses **might be deductible** if actions were discontinued because of: unfavorable publicity that might result; interruption of business throughout long trials; expense of a long litigation, etc. If you can fit the decisions, that may give you a deduction in difficult litigation, where you would get no deduction if you lost. This may be the year to get your deduction by a settlement of your suit.

A recent decision permitted a deduction for interest in a case where a railroad was in the bankruptcy courts and probably never would settle the interest in full. If you are on the accrual basis, keep on claiming interest deductions even though you cannot pay your interest until that point is cleared.

Improvements to leased business or income producing property must be capitalized. However, it may be to your advantage to deduct the full amount of the improvement in a current year. If you can arrange with your landlord to consider these improvements to his property as a **reduction of the rent**, you might be able to deduct them as rent.

As partially worthless debts may be deducted only in the year when charged off, and not in the year when they became partially

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A recent decision approved depreciation allowances where the lessee was required to keep the premises in good condition under a 99-year lease; if you merely require the lessee to keep the premises in good repair, you get the deduction. But if you insist that he replace losses caused by depreciation, obsolescence, or return the property in as good a condition as when delivered, you get no depreciation deduction. Obviously great care must be exercised with leases if you seek the depreciation.

If you sell at prices based upon future profits of the property you are selling, the amounts received will be long term capital gains. For example, if you sell a business for a fixed price plus a percentage of the profits for a fixed term of years, the latter might be a long term capital gain taxed at 25%. That may be more advantageous than paying a tax on the ordinary business income **at full rates**.

Should you **sell** or **abandon** property not producing a good income? The Treasury now insists that the holding of one piece of rent-producing property does not mean you are in a real estate business. This deprives you of the special treatment of deducting your full loss when you **sell** real estate. If you are in that class and contemplate dropping a piece of real property because it is unprofitable, consider giving a deed **without consideration** versus what little you can get on a sale. If you take **nothing**, you have a full loss from abandonment. But if you take **any** money at all, you may have a capital loss deductible only from capital gains.

You will want to read the preceding check lists on interest and dividend income, interest deductions, purchasing property and security transactions. They will aid you in your plans to sell your property.

Be careful about purchases of similar property before or after you sell your assets. The "wash sale" provisions are also applied where the Treasury finds a transaction has not left you poorer in a material sense. You must suffer financial detriment. In one 1945 case a loss was denied because the sale of an exchange membership was preceded by a purchase of a similar asset some eight days previous. In this kind of case the loss might well be approved if the purchase was made 30 days after a bonafide sale had been completed.

If you own real property which has been sold at a foreclosure sale on default of mortgage payments or for taxes unpaid, the general rule is that this loss is deductible in the year your right to **redeem** expires. But you can advance the date for taking this loss by abandoning the property or releasing the right to redeem.

THE EFFECT OF THE REVENUE ACT OF 1945

PAUL W. ELLIS

Professor of Economics
Bethany College

(Formerly tax specialist with the
National Industrial Conference Board)

I have prepared a brief check list on the Revenue Act of 1945, which I thought you might be interested in, but first I should like to tell you a story about Section 722 in which I think you would be interested. The story was told at New York University's Tax Institute, which Mr. Lasser was responsible for organizing. One accountant had a Section 722 case which he thought was pretty good, and he presented it rather forcefully before the Bureau. After some delay, he received a telephone call from them. They wanted to know if he would be willing to withdraw his Section 722 claim. The Bureau would grant him exactly the same amount of refund that he had asked for under Section 711. He had to take that home and think it over. He studied Section 711 very carefully, and he could not find a thing in Section 711 that would entitle him to a penny of refund. But, of course, he was interested in the money; he did not care much about the grounds, as long as he got the money; and, since the Bureau was offering to give him the money, he took it. He got the refund. The Bureau apparently was not willing to have that particular refund case published as a Section 722 refund, but they did see merit in the case; and they gave him the money.

Now, for the check list: Here are some of the things that you may want to take into consideration because the Revenue Act of 1945 was passed, that you would not have had to take into consideration otherwise:

With regard to changes in withholding practices under the individual income tax, there are three things which you will want to take into consideration. In the first place, of course, there are new schedules. In making withholdings from your payrolls, if you use a schedule it will be necessary to use a new schedule in place of the old one.

Also, there is a new percentage computation. When the law was changed last time, if you used the percentage computations instead of the schedules, there were three separate percentage computations which had to be applied in order to determine what to withhold.

The third point concerns the W-2 blank that you fill out for each employee and turn over to the government. This indicates the amount of tax deducted and the amount of income that has been paid. This must henceforth be turned in for all employees, whether a tax has been deducted or not, if a tax would have been deducted had there been one withholding exemption only. Now, that does not mean that there will be more W-2 blanks filled out than in the past. It means that for individuals that are tax exempt under the new law, because of the

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Will they be usefully only to postwar tax deductions? There is nothing to prevent your immediately selling your excess inventory and taking your deduction now. You can settle commitments now. Pay what you must. You always get a deduction for the loss.

Take your inventory loss quickly. When tax rates are as high as we find them today, there should be little hesitancy about eliminating surplus inventories at a loss, even if the cash sales price is negligible. But to hold on to surplus and take the same or a greater loss in a postwar year when tax rates will be much lower is improvident—though it **will be done by at least half of American businesses. They always do it.**

If you are not disposing of excess high priced inventory, you may get a lot of help from the application of "fifo" or "lifo" inventory systems. The latter was devised to handle a condition of high prices—steadily mounting.

You can provide some postwar security for your employees via pension and profit-sharing trusts, annuity plans, and through the liberal tax-allowances for group insurance on employees' lives, health or accident insurance, first aid facilities and hospitalization, etc.

Pension and similar plans may provide a fine way to secure a net operating carryover that is not generally understood. If you overpay the amount of your current contribution to the pension fund, **it is not a deduction now.** But it is a deduction in later years when you do not have the funds to make the needed payment. If that produces a loss, or increases the loss in the later year, you set up the entire cycle of carry-backs of net operating losses. It is conceivable for an overpayment in 1945 to be a deduction in 1945 even though it is actually used as a deduction in 1947.

What about your men in the service? Are you keeping up with their pay? You generally get a deduction for that. In many cases the extra pay to a soldier will be a fine back-log for his peacetime costs. Some companies study that with the soldier's family.

What about costs of training your present staff so that they will be ready to take on added responsibilities? You have the alternative of waiting until you need people or getting a deduction this year for schooling them in postwar production, marketing, selling, and management.

You might get much help today by contractual arrangements with the universities to train men for you in the postwar period. Your contributions today to the universities are deductible (up to 15% of your adjusted gross income). If funds given a university are wholly within its independent control, you will probably get the deduction. That

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gives you a **present** deduction for the training. Obviously agreements of this type should be submitted for Treasury review.

What can you do to get tax deductions for rearrangements of your plant to take care of postwar operations? You can get rid of anything that you won't need in postwar and get a full deduction for it now. That is a lot more profitable **than waiting** for a low tax year to get tax aid in your replacements. Check your equipment now to find what sales will result in postwar reserves through tax savings. And immediate replacement of machinery available gives you many advantages today.

You can get a deduction today for the cost of moving machinery from one plant to another. Perhaps this is the time to move and take losses. The cost of resetting machinery pushed aside to take care of war work is a present deduction. It may be advisable to attend to the rearrangement now.

I can roam through a great many other items. Let me leave the subject with this rather general statement: those of you who are in business and are charged with the control of business have a very serious obligation in a transition period of this kind. You ought to study income, your contracts, the avenues of relief in our income tax law, and all the other highways I have discussed. Only then can you find which of them can be of most service to you in building or aiding your postwar financing.

Tax Control in Buying and Selling

One last subject in this problem of control concerns the way you handle things tomorrow. Your purchases of tomorrow can materially affect your taxes of tomorrow; your sales of tomorrow can materially affect your taxes of tomorrow. The method in which you handle re-conversion can materially affect your taxes; the method in which you make deals with your customers, your creditors, your subsidiaries, can very materially affect your taxes.

For example, let us take your buying of assets. There are a great, great many mechanics involved in the control when you go to buy something and when you go to sell something. Assume I am buying a business. How shall I purchase it? Do I buy it in bulk, or do I buy it in part; do I buy it or lease it, do I pay a lump sum, or do I pay installments and get an interest deduction? All of those things involve tax control. Here is a check list to aid you.*

Control interest deductions carefully when you buy or sell by adjusting the price to obtain the greatest tax benefits. When deferred or installment payments are involved, it may be highly advantageous to

*The material listed below is abstracted, with permission, from books written by Mr. Lasser and published by Simon & Schuster, Inc.

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decrease the selling price and to have a high yearly interest. That gives the buyer the greatest possible deduction.

Purchase of convertible bonds does not create a tax for you on a conversion of the bonds into stock of the same company. There is a tax if the conversion is into securities of another company, even if the exchange is pursuant to the bond. The rule makes for tax reduction in your right to acquire an obligation that carries adequate interest and yet gives you the chance to get a hedge through property that may have an appreciated value—all without tax.

If you are buying an entire business or business assets in bulk, you generally get your greatest tax advantage by insisting that the seller allocate your purchasing price to assets that give you your greatest reduction. Thus you should seek to place the following values:

Asset	Value	Why
Inventory	High	Deduction at a purchase price is secured on its sale.
Receivables	Face	Profit over amount paid for this asset is ordinary income. This is not a capital gain.
Land (not used in that business), Good will	Low	You might value these at the suggested low price if that will get you high values on other assets. No tax advantage is secured through depreciation. But be careful of low values if you contemplate a sale of the land or good will.
Buildings and Land Machinery Equipment	High	Annual depreciation and reduced tax on sale may be very useful. Loss on sale is fully deductible.
Covenant of seller not to compete with buyer	High	Payments are fully deductible. But see above when this is used as a basis for payment of good will.

When depreciable property is bought, there is a control possibility. A flat price of \$12,000 for the asset would enable a purchaser to take, say \$1,200 a year for 10 years as depreciation. A price of \$10,000 payable in four equal installments with \$500 per year interest would give the purchaser a \$1,500 deduction for the first four years, and \$1,000 for the next six years.

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Who gets the property tax deduction when you adjust with the seller in buying real estate? The tax is deductible only by the person against whom it is imposed. If you buy on July 1 and the lien or personal liability was placed against the owner on June 30, then even though you pay him one-half of the taxes, he gets the deduction. Your adjustment is added to your investment. In New York City, taxes for the year ended June 30 are paid on October 1 and April 1 and no lien or personal liability is had until October 1. If you buy between June 30 and October 1, get your price reduced by the proportionate tax. Then the tax paid on October 1 or later is deductible by you. Check your local law with your lawyer before you buy properties to see when the lien is attached.

If you abandon or demolish part of an asset recently purchased, you may **not** get a tax deduction. For example, if you buy property and then demolish the building on it, you cannot have your loss. The Treasury assumes you bought only the real estate. You must be careful to establish your intention to retain and not demolish as of the date you acquired your property. But cases will allow you the deduction when:

Old buildings were razed or old equipment scrapped voluntarily as an incident to renewals and replacements.

A building is bought with intention to use it for a definite purpose. It is razed shortly after purchase because of hidden defects unknown at time of purchase.

Property is acquired to prevent competition and later it is demolished or scrapped.

An orchard land is used for four years and then due to drop in price of fruit the trees are removed in order to grow alfalfa.

Portion of a building is razed to make for a larger and better addition to the building.

You make a sale and you may agree to receive payment in installments if your buyer is a good credit risk. If you do you can defer gain to other years.

If you hold installment obligations upon which you have deferred reporting income until collection, you must remember that the obligations **cannot be sold** unless you propose to report the entire deferred profit the year of the sale.

Long term leases of your property will give you a deduction for depreciation. That may often give you a better tax position than a sale of your property. For example, if your depreciation is \$10 a year and you rent for \$10 a year, you have no tax to pay. If you sell, you generally owe 25% of your net proceeds. Work out the mathematics in your own case.

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worthless, be sure you charge off a partially worthless debt in a year when it will be of most use in reducing your tax.

Under a 1945 ruling you can now make a written agreement with the Treasury fixing your depreciation rate for a period of five years. Consult your local Internal Revenue Agent-in-charge. You have the right (even after you have signed the agreement) to request a change in the depreciation rate if your situation is altered. But the Treasury is bound for five years.

If you were engaged in war production and are converting to peacetime plant needs, you should carefully study the present opportunities for deductible expenses. The Treasury rulings of 1945 are liberal directions for early disbursements. They give you a chance to get write-offs now for your costs of moving, restoration and revamping your plant. For example, you may have a deduction for:

- Expense of restoring buildings or building equipment demolished or altered for war production purposes, when you now alter to peace time needs—**unless** you took the loss for the demolition when you made the change during the war.

- Full cost of reinstalling machinery moved during the war—including new foundation costs **unless** you wrote off your original installation costs when you moved. Then you deduct only the excess.

- All expenses of moving machinery within the plant including machinery purchased during the war. The only exception is machinery purchased from the government where it was required to move it.

- All expenses of refurnishing, reconverting, moving, restoring your plant to its old condition and in making ordinary repairs.

You can get tax benefits by a careful study of the way you buy. Possibly **leases** of equipment will be better than purchasing. That gives you full deduction for your annual cost as you use the machinery.

Be sure to control your interest deductions carefully. Adjust your price to obtain the greatest tax benefits. When deferred or installment **payments are involved**, it may be highly advantageous to decrease the price and pay the difference as interest. That gives the buyer the greatest possible deduction. If you buy a "futures contract" calling for delivery of merchandise at a future date, and on delivery date the price of this merchandise has fallen, **accept delivery**. The loss suffered upon sale of the merchandise will then be an ordinary loss. If, instead of accepting delivery, the "futures contract" is sold at a loss, the Tax Court in 1945 held that this was a capital loss.

Study your assets, obligations, and contracts to find if you can now "hedge" in any way to prevent postwar losses. If you settle or

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take your loss now, you may save a material part of your high tax this year. That may net you much more cash than to take your loss in a postwar, low tax year.

You can get no deductions **now** for costs which you may have later to make good on present day sales. The classic example is the contractor who must include his full contract receipts in income today, even if he will remain responsible during the postwar for his guaranties upon his work. **But cash settlements** this year with your customer that eliminate the postwar guaranty, give you a deduction this year.

What about incurring present-day costs for deductible expenses that are a real business aid for the future? For example: better customer and employee relations; more effective public relations, etc. Put into the same class forward looking costs involving employee training, control of wastes, more effective management. All are deductions this year.

You can deduct any disbursement that is an ordinary and necessary expense to carry on your business and to obtain customers who can be reasonably expected in the future. Good management **this year** seeks to find what costs will eliminate costs in later years to obtain, hold, and service your customers.

What about your deductible reserves—particularly the reserve for bad debts? Is your current addition all that it should be? Think particularly of arrangements with customers that may be seriously affected by termination of their war work. Should you claim more now rather than take your loss later?

Some companies accumulate research or experimental costs and then charge them off over a period of sales, or capitalize them under long established accounting methods. This is the time to examine the consistent practice to see if any capitalized costs should be written off and present expenses charged off as incurred. That may require Treasury approval of a change in accounting methods. But that should not be difficult to obtain, if your costs do not leave you with a permanent asset that will be of value in later operations. If you are undecided about permanency, abandonment of the asset is best proof to the Treasury of your deduction.

Check your inventory methods. Are you taking full loss for obsolescence, damages, shrinkage, etc.?

What can you do about your high priced or excessive inventories? Will you have losses when you have to pay for forward commitments? What is your loss from possible drop in prices of your inventories and loss in disposing of products that are war substitutes or sub-standard?

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change in exemptions, the blank will have to be filled out and turned in just as if a tax had been paid. The employee can use that blank to make his income tax return, even though he is not taxable.

The next item on the check list is the declared-value taxes. The declared-value-excess profits tax and the capital stock tax—the set of taxes under which you would gamble with the government each year as to what your profits were going to be—are repealed effective with the capital-stock tax due July 31, 1946, and the declared-value-excess profits tax beginning with the related taxable year. There is also a special provision so that if you had war loss recoveries in the last year for which you pay tax under these two taxes, you will not be penalized because you were unable to guess that you were going to have war loss recoveries. You will treat the war loss recoveries separately, and they will pay a tax of one and one-quarter per cent, which means that you would get the best deal possible had you guessed your income from these recoveries perfectly.

Those of you who are concerned at all with taxes on distilled spirits, wines or cordials, and fermented malt liquors, will be interested in the provision for refund of taxes on floor stocks when the wartime taxes on these are repealed or when they become ineffective as a result of an official declaration of the end of the war for this purpose. At that time you will be entitled to refunds on the taxes that were paid on the stock on hand, provided two things exist: one is that you keep adequate inventory and other records (adequate as defined by the Commissioner of Internal Revenue) and the other is that you reduce the price of your product so that the customer gets the full benefit of the repealed taxes. Then, and only then, are you entitled to a refund.

In the case of light bulbs which are in stock a similar provision has been included, provided, however, that you do not have to pass the savings in tax on to the consumer.

The excess-profits tax repeal has a carry-back which Mr. Lasser spoke to you about, in which he called your attention to the fact that there would be an automatic adjustment of your 1946 taxes and perhaps 1944 taxes if you have a loss in 1948. I should just like to question whether that would be automatic if Congress doesn't change the law, but there is pressure being brought to bear on Congress that when the next tax law is enacted there will be no more carry-backs.

This matter of carry-backs is probably of more interest to small corporations and middle-sized corporations than it is to the large ones; it is of more interest to corporations in industries where there are wide fluctuations in profits and losses over periods of prosperity and depression than it is to other corporations. A good many of you in this district are familiar with that type of corporation. Now, when this next tax law is considered—whether it's 1946 or 1947—if the case for keeping the carry-back is not fairly well supported, we are likely not to

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have a carry-back any more, so that in 1948 there might not be any automatic carry-back.

Those of you who are on a special fiscal year basis are probably aware of the fact that you are going to want to crowd in all of the reconversion costs and other costs incident to getting back to a full time basis in the year that will be ending in 1946. Any losses that you have, or a deficiency of excess profits credit that you may have in 1946, of course, can be carried back; but if these costs are carried beyond the end of this fiscal year, you only get a partial benefit. The benefit will be limited by the percentage of your fiscal year which remains in the calendar year 1946. If your fiscal year ends June 30, then you will be entitled to only one-half of the excess-profits tax carry-back which you would be entitled to if you did not have it. By getting it in ahead of that, you save the entire amount; by putting it off, you limit yourself to that 50 per cent.

The tax deficiencies resulting from carry-backs is something which has disturbed some people, but it can work both ways. You can carry-back a loss from one year or an excess-profits tax credit from one year to another and find out, as a result, that you have had less excess-profits taxes net income but more normal tax income. If you were subject to the 80 per cent limitation, then you pay an additional normal tax, but you pay the same excess-profits tax because the 80 per cent applies to more income than it otherwise would; and, as a result, you pay more total tax. Subsequent to the year in which you find that you must pay more tax as a result of this deficiency you may have losses and excess-profits credit carry-backs and then be entitled to a refund.

The failure of business to take deductions or expenditures which must be taken in the future is another item that Mr. Lasser has called your attention to. During the rather extensive discussion as to whether reserves for postwar expenditures should be allowed as deductions in determining taxable income for war years, there were a good many corporations that were able to see that when the war was over they were going to have this expenditure and that expenditure and a great many other types of expenditures which were properly applicable to wartime income. They felt that it was only appropriate that reserves should be provided to charge those items to wartime income instead of waiting and taking them all as deductions in the postwar period, when there may be no income, in order to offset them.

Now, when there is a shift in taxation from a wartime basis to a peacetime basis, it would seem to be particularly worth while to review that whole area of expenditures which you know you will have to face during the next few years, particularly the next year or two, which are properly allocable to the wartime period, and see if you cannot estimate them sufficiently well to obtain their deduction against wartime income.

There are just two other items which I think I ought to mention before I open the period for discussion, and they have to do with the

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significance of the Revenue Act of 1945 upon what we were going to have in the way of a Revenue Act of 1946, a Revenue Act of 1947, or whatever act we have next. One of those things has to do with the Social Security taxes. Up to the present time, business generally seems to have been most interested in keeping those Social Security taxes down. There was some desire on the part of government officials during the war to increase Social Security taxes because half of them presumably would be paid by employees; and, in the process, the amount of money they would have had to spend during the war would be reduced. Therefore, it would tend to restrict inflation.

In the postwar period, however, the opposite situation will prevail. While expenditures in the form of benefits under the Social Security Act, will increase as time goes on, you will find that some governmental authorities will be interested in keeping those Social Security taxes down, and shifting the burden on to the general taxpayers, which will probably mean the income taxpayers. Their arguments will be this: if you increase Social Security taxes now, you would take money away from that part of the population which would otherwise spend it. You would reduce the amount of consumer expenditures and, therefore, you would inhibit the development of our postwar economy.

The argument is likely to go further to the point that, instead of having Social Security taxes levied on employees and employers as they have in the past, we should do away with that matter entirely and take the benefit expenditures into a general budget, then these taxes which would have a tendency to curtail consumption expenditures could not have that effect. The taxes that would be levied would be taken from people with higher incomes and perhaps from corporations, where the income would otherwise be saved and not used for consumption.

There is one other element of the Revenue Act of 1945 which I would like to mention as having an important bearing on the next tax law. I suspect that much of the reduction of taxes in the Revenue Act of 1945 resulted from wishful thinking on the part of individuals who were hoping that postwar expenditures were going to be less than they actually will. We have reduced our government revenue about five or six billion dollars a year at a period when our deficit amounts to several times that much. There is no indication that our expenditures are likely to be anywhere nearly as low as the present level of revenue for a matter of several years.

I suspect that it will be wishful thinking to even hope that we can have another tax bill in 1946 which will further reduce taxes unless we are to have much more in the way of deficit financing than we had at any time during the thirties.

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Discussion

Question: I would like to ask Mr. Lasser in regard to his comments on the contrast between the rates of a corporation and a partnership, the rates of 38 per cent and 63 per cent, which he mentioned. Interwoven in those rates and in that problem is the question of the tax to individuals on corporate distributions, dividends, and so on,—there is some current thought about the possible elimination of double taxation on those distributions from corporations. Do you think there will be any exerted influence brought to bear to eliminate that so-called double taxation?

Mr. Lasser: Certainly, business has made a valiant effort to have double taxes eliminated. Every survey proposes elimination. The Treasury has indicated that it recognizes that problem, and it proposes to face it with courage. I think you may assume that something is going to be done; I would hesitate to say what.

Dr. Ellis: During the war years, it was particularly evident that that double taxation was injurious to corporations or to their stockholders. Prior to the war—you will remember the story—that particular problem was attacked in 1936 from the other direction. Because of the fact that income was not distributed by corporations, it was not being subject to the surtax on individual incomes. It was then claimed that there was unfair discrimination in favor of the taxation of corporate income. And so we had the undistributed profits tax of 1936.

There seems to be a rather general agreement that we should get rid of double taxation; I don't know of anybody who advocates keeping it. I do know, however, that the minute we get into this question of eliminating double taxation, you are going to have at least half a dozen different suggestions as to how it should be done. In the process, there will be a rather strong drive to make sure that there is no corporate income which escapes taxation as a result of any changes that are made.

If a satisfactory device can be worked out, whereby it is sure that all corporate income is subjected to tax once and only once, we will get rid of double taxation. But every plan which has been presented thus far has had important objections to it. As a result of failure to obtain an agreement on one of these admittedly defective plans, we may easily continue to have double taxation.

Question: In connection with your suggestions for breaking up a large corporation into three or four small ones, to have the income of each down to a smaller bracket, that is so that one corporation might have a corporation for its manufacturing and one for its sales and one for wholesaling and retail, and so forth, can that be done for the year 1945 at this time?

Mr. Lasser: No, there would hardly be time enough for it this year.

Question: Mr. Lasser, I may have misunderstood you but I got the impression that you said it was not altogether certain that if you

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got a refund under Section 722, that your normal tax would be increased. I should like to have you give us a little bit more on that.

Mr. Lasser: Section 722 provides for the imposition of a new kind of excess profits tax based upon constructive income. Under Section 26(e) of the Revenue Act, you will find specific reference to the fact that there is to be no adjustment made after that has been accomplished. In the case of **Uniterm**, in 3 T. C. 917, you will find a definite intimation that the Tax Court saw no reason why there should be a change. That is why I argue and have been arguing with all my associates that there ought not to be any settlement of Section 722 cases today until we settle the problem. It seems to be absurd to close cases until we find whether we are right on our side or whether the Bureau is correct in its position.

Question: The excess profits tax is based on a base period, and presuming that those periods are closed by the Revenue Department, then upon a subsequent examination of the war years, depreciation is changed; in fact, it is reduced. In the thought thereunder, it could go back through that base period. The company affected thereby would be paying greater excess profits tax with no adjustment to their base period. Is there any relief possible, when the base periods are closed, to go back and have your depreciation or any other depreciation, for that matter, changed in those base periods?

Mr. Lasser: The law says that if an error was made in any of the base period years, or in the years used to calculate the income credit or vested credit, you may make an adjustment. The difficulty is that we don't know whether depreciation fits into that. Some think it does. However, a lot of us think, on the other hand, that if there were a correct calculation of depreciation in that period, you are estopped at this moment from making a change.

If I were you, and it amounted to a sizeable amount, I would watch the decision to find if we can make the claim. There was a Tax Court decision in a Section 734 matter about a month ago in which the Tax Court indicated that it might not be done.

Dr. Ellis: Many corporations have claimed relief under Section 722(b)(5) for such depreciation adjustments. The Bureau seems to be denying that this is proper, but in the absence of a definite decision, that remains a possibility for relief.

Question: In view of the fact that the tax rate is going down in 1946, why is it now attractive to consider the idea of extra corporations, and in most cases should they be wholly own subsidiaries?

Mr. Lasser: They may be. I did not indicate that they ought to be wholly owned subsidiaries. A great many people, where possible, do it by having the same owners of the existing parent company.

Why do you do it? Merely to get advantage of the reduced rates for the small corporations, together with the ability to retain earnings

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within small groups, rather than the accumulated retention in the large group. It must be evident in American tax-making operations that Congress is always going to give the small fellow the break.

If you can possibly get within the scheme of the corporations that have incomes less than \$50,000, preferably less than \$25,000, you will always be better off; that has been so for a great many years. The formation of even the wholly owned subsidiary may accomplish exactly that, provided you watch Section 129 pretty carefully—and provided you watch decisions which hold that you have some decent business reason for making the shift. Particularly, start a new company if you start a new venture in the postwar period. Where that is not done, there may be a great deal of loss. And, if you are talking about moving abroad and selling anywhere, in Canada, or South America, think in terms of new companies and all of the advantages referring to all foreign corporation sections in our law.

Question: I have a feeling that it would be helpful if Mr. Lasser would follow through completely as to why, in the case of carry-back provisions, there might be a situation where taxes in the year 1948 would carry back and affect the years 1942 or 1944.

Mr. Lasser: Let us put some figures on your pad. In 1946 my corporation had \$1,000 excess profits credit, and it had \$1,000 income, so it paid no excess profits tax. It had no excess profits carry-back because the two were equal. In 1948, it lost \$2,000. Under the rule, the \$2,000 wipes out the \$1,000 which was earned in 1946, and I, therefore, have a \$1,000 credit carry-back, which under the law may be moved or is required to be moved first to 1944, and you get a refund then of the 1944 excess profits tax.

Let us assume that income in 1944 was only \$500 in excess of the credit. Then I am entitled to go to another year—1945—and use up the other \$500 credit, thus I get back taxes that I paid in 1944 and 1945, but I have not used the \$2,000 I lost in 1948. I only used \$1,000 of it in 1946, because my income was \$1,000 in 1946.

Let us assume now that I made no money in 1947, but I made a lot of money in 1949 and 1950. Then that \$1,000 that I haven't used becomes available to reduce the income tax payable in 1949 and 1950.

Some say there is an effort on the part of some, particularly in labor unions, to eliminate the privilege of the carryback for management in subsequent years. I have grave doubt that there will be any change. I have been proceeding on the assumption that there will be no change. Our law contains a great many places where we get the equivalent of the carry-back, a great many places where you have no tax to pay if you fit into the averaging system of the law. For example, an individual who earns a lot of money in 1945, as a result of efforts for 20 preceding years, may spread his income. If I spent three years writing a book, I may spread my income in the third year back over the years that it took me to write the book. That kind of section—

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Section 107—is duplicated in Section 105; it is duplicated in many other places. You'll find it in Section 721. There is a place where we may take income out of the excess profits year and roll it back, even to 1930.

I am trying to say that our system of averaging taxes is an integral part of Federal tax mechanics. Moreover, Congress has made a compact with the American businessmen to continue the carry-backs. Remember that in some cases, corporations have already received their carry-back benefit. It does not make good sense to take it away from their competitors because they make their claims later.

Dr. Ellis: I personally haven't seen any indication that union labor is interested in abolishing that carry-back. My information comes altogether from two different sources; one is from government officials, and the other is from tax accountants.

The government officials and tax accountants have had the feeling that it is so difficult to administer the law with regard to these carry-backs that they want to get away from recomputing back taxes. They would like to do away with the carry-back and increase the carry-forward period. That would work as far as a corporation that can depend upon having profits every years is concerned; but for small corporations that traditionally alternate profits and losses, and for some industries that follow such trends, that change might be disastrous. You wouldn't receive much benefit for losses in 1946, 1947, 1948, and 1949, from the taxes that you will thereby not be required to pay in 1950 and 1951, if you are not in business in 1950 and 1951. The carry-backs would help assure your being in business in 1950 and 1951.

The reason I have been most afraid that the carry-back would be repealed has been that the objection to it came from sources which were so close to business, particularly from some of the accountants. If they come to Congress and say, "You have given us that advantage but we don't want it," I believe that Congress might be persuaded to repeal it.

Question: In view of the fact that the government has been, is now, and probably will be for some time, overspending as far as its income is concerned—in view of the fact that they passed a law eliminating so many million taxpayers, do you think there is a possibility, after they once realize that you cannot pay off debt unless you have income, that there may be a trend the other way, as far as taxes are concerned?

Dr. Ellis: No, I do not think so.

Question: Do you think, under the present 1945 base, the total taxes collected will provide revenue to take care of current expenses and make some inroads on the national debt?

Dr. Ellis: I think that the postwar level of government expenditures is going to be about \$25,000,000,000 a year and the present law

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is estimated to provide \$27,000,000,000 a year on the income of the reconversion years of 1946 and 1947. After reconversion, a higher level of national income should yield greater revenue from the present taxes. That picture does not allow much possibility for further tax reductions and debt retirement.

So far as the \$25,000,000,000 expenditure level is concerned, this will not be reached before the fiscal year ending June 30, 1947. For the fiscal year ending 1946, which is our present fiscal year, we will spend far more than that. Whether we can get down to the level of \$25,000,000,000 in 1947 or not is very doubtful; however, by 1948 it might be done. The question as to whether we are to repay any or all of this debt, of course, depends on reducing expenditures below the level of revenues.

Mr. Lasser: I think we have to reduce personal taxes. Corporation taxes are down to a decent level. Calculations tend to indicate that with a 50 per cent top surtax rate, we could still raise \$25,000,000,000 with a national income of \$130,000,000,000. I suspect that there will be a savage attack on it during the next year. Perhaps results will come the year after.

Dr. Ellis: There is another field of taxation that is going to come up for extensive overhauling, and that is the manufacturer's excise taxes. Long before the need for these taxes disappeared in World War I, we started repealing them, because it is very difficult in a good many cases to define them for administrative purposes. Congress levies a tax on a given article, but nobody knows just what that article is. There are so many of these articles and the difficulties of definition are so great, that for administrative reasons, if for no others, we will likely have a decrease in the manufacturers' excise taxes.

Of course, if we are able to eliminate double taxation, the advantages of such a change will accrue primarily to people with incomes in the higher brackets, because they receive most of their income in the form of dividends. It may be that that would be offset at the lower end of the income bracket by elimination of most of these excise taxes and some increase in exemptions. Perhaps the need for revenue would prevent any other reductions.

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APPENDIX

"Some of the Excess Profits Tax Controversies Between the Bureau and Tax Practitioners"

Section 26(e)

Do you change the credit computed when a company has Section 722 relief claims or uses the accrual method under Section 736(a)? (Uni-Term, 3 T. C. 917, 1944). Or is it the same credit as applied without the relief?

How is the credit computed when there is a short year? Is it the annualized income under Section 711(a) (3)?

Section 122

Which law is applied in determining the loss carry-over, that in effect in the loss year or in the year to which the loss is carried? (Moore, Inc., 4 T. C. 404, 1945, *affd.* CCA 5, 1945.)

How is the adjustment in Section 122(d) (6) made for excess profits taxes paid or accrued in the tax year, when the company is on the accrual basis?

Section 710(a) (1) (B)

Does the 80% limitation apply if taxes arising from Section 734 inconsistencies bring the amount over the 80% limitation?

In determining surtax net income of a prior year, must Section 721 abnormal income attributed to it from a later year be included?

Is a company on the invested capital method entitled to receive a foreign tax credit when it receives dividends from foreign countries?

Section 710(c)

When the taxpayer is a holding company in some years and not in others, do the non-taxed years create unused credits which can be carried over to taxed years? Are non-taxed years counted in determining the years to which the credits may be carried?

How do you compute the carry-over from annualized short years? Is it the difference between the actual income and the credit adjustment for the proportionate period? Or do you use annualized income?

Section 711(a) (1) (B) and (a) (2) (D)

In addition to excluding long term gains and losses, are short term losses allowed only to the extent of remaining short term gains?

May the loss on the sale of debentures which were purchased as a condition for obtaining a concession or lease, be allocated partly to rent as an ordinary deduction and partly to loss on investment as a capital loss? (Exposition Souvenir Corp., T. C. Memo, 1945).

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Section 711(a) (1) (C) and (a) (2) (E)

Is the mere acquisition of a debt for cancellation or to be held in the corporate treasury, sufficient as a "retirement or discharge" of an obligation? (*McClain v. Commissioner*, 311 U. S. 527, 1941.)

Are there many additional obligations covered by this section which are not included in "borrowed invested capital"? (*Frank J. Cobbs*, 39 B. T. A. 642, 1939; *Mary D. Gerard*, 40 B. T. A. 64, 1939; *affd.* 120 Fed. (2d) 235, CCA 2, 1941.)

Section 711(2) (1) (E) and (a) (2) (H)

Does the use of the reserve method bar the elimination from income of recoveries at this time? (*J. F. Johnson Lumber Co.*, 3 T. C. 1160, 1944; *Boyd-Richardson Co.*, 5 T. C. No. 83, 1945.)

Where the charge-off is made by a predecessor, is the recovery excluded?

Section 711(a) (1) (J) and (a) (2) (L)

Should there be an adjustment of interest on borrowed capital in the computation of the net operating loss carry-back?

Can the carry-back ever be used so as to benefit successor companies?

Section 711(a) (1) and (a) (2)

Do the statutory limitations for contributions and depletion affect the income for the purpose of computing the excess profits tax?

Section 711(a) (2) (A)

How do you compute the net income when you have a foreign tax credit and use the invested capital method? Problem arises where the excess profits tax before the foreign tax credit is lower under the invested capital method than under the income method, but results in a higher **net** tax after the postwar or current credit.

Section 711(a) (3)

With short years, do you annualize the income in computing the carry-overs?

With short years, is there a reduction of the income credit upon the liquidation of a company? (*Kamin Chevrolet Co.*, 3 T. C. 1076, 1944.)

Section 711(b) (1)

If the income in the current year must be readjusted for contribution and depletion allowances on a percentage basis, do you also adjust the base period years?

Section 711(b) (1) (B)

See Section 711(a) (1) (B) above. Does this also apply to this section?

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Section 711(b) (1) (J)

Do abnormal deductions have to be "deductions from gross income" in the manner in which your base year tax returns were filed? (Green Bay Lumber Co., 3 T. C. 824, 1944.)

Section 711(b) (1) (H) - (J)

When is a deduction "abnormal for the taxpayer"? Is the Treasury correct when it claims that no deduction of the same class must exist in the test years? (R. C. Harvey Co., 5 T. C. 431, 1945.)

When a deduction continues through two or more years, is the deduction for the second or third year barred as one abnormal in kind?

If any of the test years is a short year, should the deduction of the same class be annualized? (Cf. Regulations for Section 711(b) (1) (K) (iii) which require annualization of the deduction in a short current year for purposes of limitation.)

May a class of deductions be subdivided to prove that at least **some part** was abnormal? (Iron Fireman Mfg. Co., 5 T. C. 452, 1945.)

Section 711(b) (1) (K) (ii)

If the abnormal deduction **precedes** the increase in gross income, the decrease in some other deduction, or the change in the type, manner of operation, size or condition of the business, can it ever be a consequence of such factor or factors? (R. C. Harvey Co., 5 T. C. 431, 1945.)

If the increase, decrease or change is inconsequential or negligible, is it nevertheless a **consequence** under this provision? (Cf. North Carolina Equipment Co., T. C. Memo, 1945.)

Is the period "at any time" when referring to the change in the type, manner of operation, size or condition of the business, restricted to base period years and years **prior** to the base period? (R. C. Harvey Co., 5 T. C. 431, 1945.)

Section 711(b) (1) (K) (iii)

Is the limitation applicable to abnormalities in kind as well as those in amount?

Is the Treasury correct in requiring annualization of the current year if it is a short period? There is no similar requirement to annualize deductions in short base years or in short test years.

Section 712(a)

Does "in existence" means that you must have both a legal existence and have been a company subject to the excess profits tax? (For example, a personal holding company may change its status yearly due to changes in income and stockholdings). (The Economy Savings and Loan Co., 5 T. C. No. 62, 1945.)

Section 713(g)

When you compute capital reductions, are we required to adjust in these cases?

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Current earnings exceed dividend distribution but not sufficient to wipe out accumulated deficits.

Distribution exceeds both the current earnings and the accumulated earnings.

Purchase of Treasury stock (or is cancellation of stock necessary?)

Complete liquidation of a company?

Conversion of stocks into bonds create a capital reduction (if so, what kind of a capital reduction do you have?) To what extent is it a distribution "not out of earnings and profits"?

Section 718 (a) (2)

Is stock issued for services included? Assuming that we do include stock issued for services, at what amount is it includible when the values of the stock and services are not equal?

Is the Treasury correct in treating the purchase of Treasury stock as an inadmissible asset?

Does the surrender of capital stock by a stockholder reduce invested capital?

How are contributions by stockholders to capital treated? May a non-stockholder contribute to capital? (Liberty Mirror Works, 3 T. C. 1018, 1944.)

Section 718(a) (4)

In computing earnings and profits what about these difficulties?

Should we pro-rate taxes over the year of payment as was accomplished under the old law?

When there is a payment of prior year taxes, do you make the adjustment as of the year of accrual or on the date of settlement of the tax?

Is the Treasury ruling as to reduction of earnings and profits for distributions in excess of earnings correct?

Where property which has appreciated in value is distributed as a dividend in kind is there an increase in the amount of earnings available for distribution?

Can we still credit depreciation for prior years if errors are now ascertained? This would apply only in computing invested capital and not in determining basis of assets.

What is the proper charge to earnings and profits when there is an amortization allowance of a war facility instead of depreciation?

Section 718(a) (6)

Does the provision barring the bonus to control companies apply when there is anything less than a parent and two subsidiaries?

If you have a 25% bonus, is it eliminated when the stock on which the bonus is based is converted to bonds?

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Section 721

Must there be independent proof submitted that abnormal income is in fact attributable to other years, after making the 125% computation?

Is the Treasury correct in requiring the amount of abnormal income attributable to other years limited by increased business, change in operations, selling prices, costs or investment? (Cf. specific limitations provided in Section 711(b) (1) (K) (ii) and (K) (iii)). (See Premier Products Co., 2 T. C. 445, 1943; E. T. Slider, Inc., 5 T. C. 270, 1945; James F. Waters, Inc., T. C. Memo, 1945.)

In Section 721(a) (2) (C) limited to tangible property, patents, and technical formulae or processes?

Is relief under Section 721(a) (2) (C) denied to a company where its predecessor carried on the research, etc.?

Is abnormal income under Section 721(a) (2) (C) allocated to prior years on the basis of expenditures made each year, or on a ratable basis?

Is abnormal income under Section 721(a) (2) (C) limited to income from disposal of property and to income comparable to royalties?

When is income "abnormal for the taxpayer"? Is the Treasury correct in limiting such income to the company not having gross income of the same class during its test years?

Section 736(a)

In these cases is the income altered or is it exactly the same as though you had never applied for relief under this section?

Is the basis for computing the 80% limitation different?

Do these cases give you a new base period income because of the reallocation under prior years, or is the only adjustment made in computing earnings and profits? (Uni-Term Stevedoring Co., Inc., 3 T. C. 917, 1944; Shenandoah Co. v. Commissioner, 138 Fed. (2d) 792, 1943).

Section 736(b)

Does the use of this section permit alternation of invested capital computations for prior years? Under the rules we may only alter the base period income.

Is a "long term contract" to be measure by the period from the time work begins until it is completed; or, is it measured by the period from the date the contract was entered into to the date of completion? Is the actual time taken to complete the contract measured, or is it the time "reasonably" required to complete?

May you use alternative methods than those stipulated in the Income Tax Regulations for allocation to prior years? For example, under Section 721 the Regulations permit allocation based on the ratio of expenditures during the year to the total expenditures?

Is the Treasury correct in requiring all expenditures during a particular year to be deducted from the gross income of that year?

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Sections 780 - 784

Is the Treasury correct when it contends that in determining the credit which produces the lesser excess profits tax, the tax meant is that prior to the reduction for the postwar or current credit?

Can adjustments for abnormal deductions, abnormal income or unused excess profits credit carry-backs be imposed against a taxpayer against its will? (When the 80% tax limitation applies, any increase in the credit results in a higher total ~~net~~ tax paid, after deducting the postwar or current credit.)

Does the postwar credit (applicable to 1942 and 1943) decrease the amount of excess profits tax accruing in the tax year for the purpose of computing accumulated earnings and profits?

Does the current credit (applicable to 1944 and 1945) decrease the amount of excess profits tax accruing in the tax year for the purpose of computing accumulated earnings and profits?

NOTE: The foregoing is not presumed to be a complete statement of controversies. For example, it does not pretend to cover Section 722 conflicts.

Marketing Problems That Lie Ahead

By

ARTHUR A. HOOD
WARREN W. LEIGH
C. G. NICHOLS

OPENING REMARKS

By

C. G. NICHOLS

Vice President and General Manager
The G. M. McKelvey Company

It is indeed a pleasure for me to have the privilege of being the chairman of this particular group meeting.

The topic for this discussion is "Marketing Problems That Lie Ahead". We in the distributing end of the business are faced with one of the greatest postwar problems if we are to have a sound post-war economy in America. Manufacturers have found it fairly easy to achieve production goals as evidenced by their wartime record, but upon the shoulders of retailers rests the task of distributing more goods to more people in order to provide more jobs than ever before in our history. It is a great responsibility.

I think what the retailers, the people who are in the distributing end of the business in this country, are looking for out of Washington is just a hint of a little bit of business kindness, a little bit of understanding that will help solve the postwar distribution problems as they must be and should be solved.

The gentleman who will address us this afternoon has a wide reputation. I am referring to Arthur A. Hood, the director of dealer relations for the Johns-Manville Corporation. He is chairman of the Postwar Marketing Committee Producers Council, a member of the National Committee of Vocational and Technical Training, director of the National Society of Sales Executives, a member of the Postwar Committees in the following organizations: American Marketing Association, Society for Advancement of Management, and the National Association of Manufacturers.

Dr. Warren W. Leigh, Professor of Commerce and Business Administration of the University of Akron, will act as discussion leader in this session.

ADDRESS

By

ARTHUR A. HOOD

Director of Dealer Relations
JOHNS-MANVILLE CORPORATION
New York, N. Y.

Before we get into the specific subject, it might be well for us to take a look at the climate or the environment in which distributive management must function.

I like to call it a framework, because as I look at the laws that are being passed relating to our economy today, — it is more than a climate, it is a framework. Every time civilization goes through a major war, there is a reaction that we should love to go back to the good old days. I hope we have learned the lesson after this major war, that you can never return to normalcy. Major wars bring about changes in the economy and structure of civilization that are permanent, and we must contend with new things. One of the characteristics of man is his unwillingness to accept the repeated lessons of history.

History has demonstrated, time after time, that we can never go back no matter how hard we try. Not only is change inevitable, but war invariably steps up the process and widens the scope of change. In many respects, the basic changes wrought by World War II are more profound than any in the records of history.

Accordingly, it is more vital than ever before that our leadership appraises the new conditions, scans the new horizons and explores the new frontiers. We must get at grips with the reality of ten new facts which alter the entire framework in which our national economy functions:

First: A Peace That is not a Peace—While we may be demobilizing, fighting has not stopped in the world and probably will not stop until the two fundamentally opposed ideologies of Democracy and the Totalitarian State find a way to work together in the world economy.

Second: The Fact of Full Employment—Our people have experienced full employment at high wages — often doubled or tripled family incomes. They like the taste of it. In many cases it tastes sweeter than freedom did without it.

Third: Our Three Hundred Billion Dollar Public Debt — Before the the aftermath of war is settled, our public obligations will probably even exceed this total.

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Fourth: The People's Savings and Cash in Hand — Generations of accumulation of savings and money have been doubled in total in the short space of four years. The credit potential and inflationary pressure in this structure is tremendous.

Fifth: A New Understanding of the Penalty of Depressions — Measured against the experience of full employment our people have seen that the losses in potential production between the years 1930 and 1940, caused by disemployment and unemployment, totaled more than five hundred billions of dollars. It has been shown that even war is not the greatest waster — that the wasted idle manpower in one decade would have paid our cost of the war with two hundred billions left over in terms of production.

Sixth: A New Declaration of Human Rights — The preamble to the so-called Full Employment Bill, which the Senate passed by a vote of 88 to 2, reads as follows: "All Americans able to work and desiring to work, have the right and opportunity to useful, remunerative, regular and full-time employment". In retrospect, history may find this document as significant to civilization as the Magna Charta. The commitment implied here means the provision of a job by private enterprise or by government, within a reasonable length of time, for anyone seeking and legally entitled to work.

Seventh: The Totality of Our Interdependence — In this electronic age of invention, specialization, and diversification, no individual can barter his personal production directly for the necessities of life. Each of us is completely dependent on others and all of us are completely interdependent in our present economy.

Eighth: The Tremendous Significance of Nuclear Fission—While this is not fractionally understood, we have learned enough to know that man has been given the choice between destroying himself or learning to cooperate.

Ninth: Annihilation of Distance — No spot on earth is now over 42 hours travel from another. A B-29 the other day flew nine thousand miles in less time than it took our grandfathers to go from New York to Washington.

Tenth: The Worldwide Swing to the Left — This has been named by others, "The Revolt of the Masses"; it is the shadow of what is called "Communism" creeping across the continents of Europe and Asia.

Those are some of the factors that I think preclude any possibility on our part of ever returning to the situation which we knew before this war.

How can industrial management adjust its thinking, planning, and action to these new economic, social, and political realities and still perpetuate free competitive enterprise and the American way of life?

MARKETING PROBLEMS THAT LIE AHEAD

An easy to state answer to this question is that enterprise and management can organize to give our people what they want in this new economic environment. Out of the welter of these great new conflicting forces is coming a gradual crystallization of what people really want in this new world. The American people want, expect, and demand five benefits from those who manage the future economy:

- 1) Job opportunity with freedom of choice as to type of work.
- 2) Reasonable security, as exemplified in the demand for an annual wage and old age benefits.
- 3) Ever-rising standards of material and cultural living in proportion to the individual's effort to earn them.
- 4) A fair and equitable division of the joint production of capital, labor and management.
- 5) To be treated decently by others and to treat others decently.

It appears that management must provide these minimums under a Democracy and the free competitive enterprise system or the people will vote their own and their leaders' freedoms away.

Yes, Democracy can vote itself into a state-controlled economy and it will not require the passage of many more laws to translate our mixed economy into totalitarian control.

Now, as we study how to provide these five wants to the American people, I think as marketing men we can see that it is a distribution problem in the final analysis. Now we get specifically into the subject, "Marketing Problems Ahead". It seems to me that there are ten road blocks as we go down the road toward the goal of providing those five things to the American people.

I: The Historic Depression Cycle—Management is still thinking traditionally in terms of the inevitability of a periodical cyclical depression in the economy. The very fact that management accepts periodic depressions as inevitable tends to preclude the possibility of eliminating serious depressions.

If the people want an ever increasing standard of living and if a great majority of them are willing to work to produce it, it would appear that management might throw tradition to the winds and deliberately and courageously plan for a depressionless future.

Again, it is easy to state the formula for the accomplishment. It involves the continuous sale at a profit into ultimate consumption or use of the complete output of full employment; but this concept sets up a series of further obstacles.

II: The Enormous Volume We Will Have To Sell—In one of our war years our tonnage production reached a total of 247% over the 1935 to '39 level, and this with 12 million of our best workers engaged in non-productive effort. Even doubled pre-war tonnage of consumer goods in the coming years will not provide full employment. The selling job is appalling. At the point of ultimate consumption or use of

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the products of total production we much more than double our pre-war sales volume.

An analysis of this task brings up more hurdles —

III: The Loss of a Hundred Billion Dollar Customer—When we were producing 247% of previous records, one customer—the United States Government—was taking more than half of our output under a formula that required no selling whatever.

With government cancellations and stoppages, we are currently experiencing the most rapid disappearance of markets in the history of business. We must substitute millions upon millions of sales to millions upon millions of individuals for government orders, and do it without deficit financing, if we are to sustain both "full" employment and "free" enterprise.

This puts us in grave danger of —

IV: Dangerously Accumulating Unsold Inventories—Excessive inventory accumulations—or the fear of them—is the primary cause of disemployment. Once layoffs, generating in unsold inventories, get started in basic industries, they spread like a contagious disease. When we shut down production and dismiss employees because of excessive inventory accumulations, we destroy the purchasing power to consume other inventories, causing further layoffs in a deadly spiral.

We have had depressions in part because our marketing facilities have always failed us at some point in the distributive chain into ultimate consumption or use.

Inventory accumulations can be just as disastrous at retail and wholesale levels as in manufacturers' storehouses. Management must plead guilty to past inadequacies in the field of market analysis, sales forecasting, budgeting, pricing, sales and credit techniques.

Inventory accumulations, however, may arise from a cause which constitutes another basic problem—

V: The Fickleness of the Consumer—It is a sad but true paradox that freedom of choice of the buyer is a specific handicap to his freedom of opportunity and security. When the consumer decides whether to buy or not, when to buy, where to buy, what to buy and how much to buy, he makes or breaks industries and causes unemployment or disemployment. Our tremendous savings, our enormous purchasing power, our huge credit potential all lose their effectiveness if it suits the public fancy to withhold its purchasing favor from industry.

Another disagreeable but true paradox is that when we hang on to our money to guard against a rainy day we hasten the coming of that very day. If there is sufficient preference for cash on hand over its expenditure or investment, nothing can prevent a depression. Paul Hoffman stated the case succinctly when he said, "The unwillingness to buy soon becomes the inability to buy."

Inventory accumulations, however, present another problem—

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VI: Increased Competition and Shrinking Gross Margins—One of the economic laws is that the more you have of a thing the more difficult it is to sell at a profit. The greater the volume of production, the more pressure there is on the price. The greater the pressure on the price, the more deadly the competition. The more intensive the competition, the lower the gross profit.

When the postwar market hits its production stride we will face the greatest competitive dogfight in the history of American business. In the competition for retail outlets and the jockeying for distributive preference, there are already evidences of a breakdown in traditional distributive channels. The gross profit honeymoon is over, management is facing shrinking margins of both gross and net profit per dollar of sales.

This situation uncovers the seventh problem—

VII: Inadequate Sales Organization and Personnel—Our sales organizations are badly depleted from raw materials selling clear through the production and distributive chain to sales into consumption and use. Existing personnel are somewhat spoiled by five years of a sellers' market. The attitude toward selling as a profession is deplorable.

A totally inadequate number of returning veterans are seeking the field of salesmanship and distribution. Not long ago, a large industrial plant made a survey of 2,700 workers in the airplane wing plant. They asked these workers two questions: first, what did you do before you came into the manufacture of airplane wings? — and, second, what kind of work are you planning after we stop manufacturing airplane wings? Eighty per cent of those who came out of the retail field did not want to go back to retail work, and 50 per cent of those who had previously engaged in selling did not want to go back to selling. We are having a tragic experience, from my viewpoint, in New York right now. We have a committee of men in our sales executives clubs who are interviewing veterans to try to help these veterans find jobs. Some 12,000 of them have gone through the mill. Make a mental guess as to how many of those voluntarily expressed a wish to go into the retail sales field? Fourteen men out of 12,000! People do not like selling, and they do not want to sell. Adequate compensation schedules and incentives have not been set up for salesmen, particularly for the most important sales job: that of retail selling to the ultimate consumer.

However, in other fields than distribution there are three more handicaps which infinitely complicate management's problems —

VIII: Warfare on the Home Front — There seems to be an inherent truculence, belligerency, pugnacity, and general cantankerousness in human nature, and more particularly among Americans, which has given us what someone has called a "versus" complex. This has resulted in headlines like, "Capital vs. Labor" — "Management vs. Employees" — "Government vs. Business", etc. These hates are being fanned by self-seeking demagogues. Our great classes and groups

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have never found a way to work together harmoniously — to fairly divide the joint production; to find a strategy whereby Business, Agriculture, Labor, and Government can lie peacefully in the same bed! Resentments in the sense of being abused by the other fellow rankle and burn in the minds of opposing groups like a chain reaction which builds up into explosive antagonisms. The customary relief valve in the situation is to resort to legislative action, but this leads to further loss of freedom.

IX: A General Lack of Understanding of How Our Interdependent Economy Works—This economic illiteracy is found among all classes and groups. False premises, slogans, and motivations are a part of the daily grind of Labor, Management, and Government. No one has come up with an adequate explanation of the cause and cure of depressions. We have not even provided an accurate definition of the Free Private Competitive Enterprise System.

In spite of the totality of our interdependence and the actuality of a mixed economy, we cling to the shibboleths and slogans of "individual freedom" and "free economy". Rugged individualism like isolation is dying hard. "Every man for himself and the devil take the hindmost" is still prevalent in much of our thinking. Time was, almost up to the turn of the century, when Americans had the economic background for individual independence; when the majority of families either produced or were able to barter directly for the necessities of life.

In the last century we have developed a specialized production of a million patents. Our independence has shrunk proportionately. There is much confusion over terms. We talk and act as though the struggle in the political economy of the world is between free individual enterprise on the one hand and Communism on the other, whereas neither exists as a reality in today's world. The actual issue is between a mixed economy, wherein free men shall independently and cooperatively plan, organize, direct and control our economic affairs, through voluntary action, and a Totalitarian economy whereby by default the Government shall take over the direction and control of industry and enforce cooperation by police power. Government controls of industry are an established fact; it is now a question of degree. We are in the gravest danger of losing our last economic freedom, the freedom to cooperate voluntarily. When we confess our inability to cooperate voluntarily and dump our problems in the lap of Congress, we sacrifice our last freedom.

This brings us to our final obstacle—

X: Bureaucratic Interference With Private Enterprise — "To control or be controlled" — that is the question. It is made up of a lot of little questions like minimum wages, shorter work weeks, price ceilings, material allocations, surpluses, taxes, tariffs, social security, fiscal policies — ad infinitum and ad nauseam. We have yet to clearly determine and segregate the part Government should play in a so-called free economy.

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THE NEW FRONTIERS OF MANAGEMENT:

Shall we now consider ten new management policies, together with some implementing strategies, tactics, and procedures, which might overcome these obstacles to a new American way of life which provides for the five minimum demands of the people?

I: We Must Unstratify Management—

All classes of industrial management—production, credit, accounting, and sales, should be integrated toward the basic problem of securing adequate consumption of full employment production. American trade is entering a new era in its evolution. This generation has seen two stages of distributive progress. The earliest was the mouse trap stage, launched by Emerson when he said, "build a better mouse trap and the world will beat a path to your door". Even today a few manufacturers are still operating under that archaic theory. The next distributive stage was that of dynamic selling, but, as we have seen between the wars, our selling was not good enough nor thorough enough to prevent our worst depression.

The new era might be called the Imperative Consumption Stage. In this stage management will operate under the compunction that production is not complete and goods are not sold until they are in consumption or use and the money equity is returned to the producers for the purchase of new materials and labor to provide replacement goods.

Under this new philosophy consumption will be accepted as the motive power of our production machine, as the creator of the vacuum that full production must fill.

The principle involved is this: **The expectation of consumption is the genesis of productive employment; the fact of consumption is the sustaining element in continuous employment.**

We have long recognized that product engineering must start with the assurance of consumption or use of the product and that effective selling starts with product design and packaging; but now we must accept the fact that consumption, distribution, and production are all integrated parts of an endless chain belt flowing from raw materials through the productive and distributive processes into ultimate consumption, and back again. If any of the three parts of the belt stop, the others stop automatically.

It is seen, therefore, that these three processes are one integrated problem, and, accordingly, management must be integrated in the solution of that problem. The military would call this "combined operations".

It behooves every production organization to thoroughly overhaul their entire production and distribution machinery and personnel from one end of this chain belt to the other, in the light of this new necessity. (A 28-step chart is available for the use of companies who desire to implement this principle).

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II: More Effective Market Research Analyses and Salescasting—

It is imperative that management find the answer to the paradox of plenty! There is no down cycle in human wants. The total market is unlimited. There is no known height to which the American standard of living cannot climb! And yet we can have over-production of individual products and partial collapse of the market. We must find the causes and the remedies for accumulating unsold inventories, industry by industry. We must achieve a balanced production and consumption diet. If there is no saturation point in the market as a whole, we must determine what will, and what will not, sell at a given period and point. We must have a better pre-knowledge of product acceptance by the public, quantitatively and qualitatively. We must have wiser budgeting, more intelligent quota building and better utilization of the power of credit. Our market analysts and researchers have their work cut out for them.

III: Constructive Price and Profit Policies—

Management has learned during the war that lowest operating costs are found at "close to capacity" operations. To hold its own in competition management must therefore price with capacity volume in mind.

Management will learn in the new economy that 10% of a dime in net profit is probably easier to secure than 15% of a nickel; that 7% net on a 200 thousand dollar volume is more easily obtained than 10% net on a 100 thousand dollar volume. Thus management will turn increased competition and shrinking gross margins into increased net profits and returns on the investment. More for less money at higher wages and fair profits can be had through the elimination of waste and greater efficiency.

IV: Vertical Coordination of Manufacturers, Wholesalers and Retailers Selling—

In this new era of imperative consumption, production management has a special obligation to the other factors in the distributive chain. Production management deals with the fabrication of raw materials into ready-for-use products. It is imperative that the producer should direct those processes which are necessary to get his products into ultimate use or consumption.

This means that the producer must have a voice in the merchandising policies and practices of the wholesalers and retailers who propel his products into ultimate consumption. It means that there must be coordinated planning and action among all sales factors, from factory doors to ultimate consumption, on the common problem of moving merchandise into final consumption or use.

Manufacturers can assure effective wholesaling and retailing without going direct to consumers by building adequate franchise structures and then training all factors on the distribution chain. Manufacturers are in a far more favorable position to develop retail training programs than their own retailers because they can spread the cost

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over a large number of outlets. Wholesalers and retailers will accept manufacturers' counsel and direction of their consumption creating activities if the manufacturer's franchise has three elements: a) better profits for the distributor than he might otherwise make; b) consumer acceptance and demand for the product; and c) manufacturers' advertising spotlighting the distributor.

We can look for more closely knit partnerships in marketing between each manufacturer and his distributors and between manufacturers' associations and retail associations in the same industry.

V: Elimination of Distributive Wastes—

Distribution is essentially motion; the movement of raw materials through the process of fabrication, warehousing, transportation, selling, and delivery, into ultimate consumption. Wherever there is motion there is opportunity for the application of engineering techniques. The same scientific and engineering approach should be had to distribution problems as we have had in the past in the field of distribution. Time and motion studies are in order all along the distributive chain. There should be detailed analysis of every function and process and a fight for savings wherever waste can be found.

Management should have a new accounting approach to distribution costs with the producer, requiring detailed knowledge of every cost from factory door to ultimate consumption, even though he is not directly concerned with the sale of his products into consumption.

In our older industries it is probable that further savings in production costs will be measured in cents, while savings in distribution costs may be measured in dollars, because of the many wastes in existing distributive processes. Management should not overlook the fact that savings in distribution costs passed on to the consumer in the end-use product price will have the same historic effect in increasing markets as savings in production costs have brought about in the past.

VI: Greater Pressure on the Creation of Sales—

If industry is to move double pre-war tonnage into ultimate consumption, management must certainly double its expenditure in advertising and promotional activities. Someone has wisely stated that "advertising is moving people towards one's products while merchandising is moving the products toward the people". Both processes must have stimulation.

When confronted with accumulated unsold inventories or the threat of them, we must lift our sights to wider markets, fringe markets, new markets, export markets. We must tap ever larger reservoirs of buying power and ever deeper levels of consumption; we must expend our external and internal sales budgets and sales personnel.

It may seem paradoxical to talk about limiting distributive waste in one breath and greater expenditures on distribution in the next, but it is perfectly consistent.

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Let's state it this way: **No distribution costs are low enough if there is the slightest waste in the process. No distribution costs are too high if they can produce additional profitable volume without waste.**

We should stop saying, "Distribution costs are too high" unless we qualify the statement by specific instances of distributive waste. It really doesn't matter what percentage of our purchase dollar goes for distribution if there is no waste involved.

When we need more sales volume to sustain employment, we should leave no dollar uninvested in additional sales that can produce them at a profit.

The only effective antidote to the handicaps in a free choice market is more and better selling.

VII: Better Human Relations—

Management must get the most out of its employee manpower potentialities and capacities, in the interest of the employee as well as that of the company. Labor is no longer a commodity subject solely to the laws of supply and demand. People are not machinery, they are organisms, with minds and souls as well as bodies, all capable of growth and expansion. The abilities and capacities of our people are far beyond what we realize or they realize.

Management's primary job in producing profits is to develop people; machines do not make profits—people do. Tomorrow's management will treat employees as integral parts of a family. That is the highest human meaning of the word "Company". An employee who considers himself a member of the family would seek these things from management:

- a) A fair job evaluation—what is "par" on their course.
- b) Incentives and rewards for extra thought and effort.
- c) Reasonable job security, and an understanding of why they have it.
- d) Individual recognition and respect for their personality.
- e) To be informed of what is going on and consulted occasionally.
- f) Fair wages.
- g) Decent environment and pleasant working conditions.
- h) A demonstrated interest in their health and happiness.
- i) Opportunity to grow and progress, implemented with training facilities. (One wise management calls its personnel records "progress records").
- j) Some responsible management factor to gripe to and the assurance that their gripes will be fairly handled.

In providing these management will need to reappraise and revise such techniques as recruiting, selection, indoctrination, motivation, training, compensation, and the supervision of manpower.

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VIII: Improved Public Relations—

Every citizen periodically functions in a triple capacity, as producer, distributor, and consumer. Every citizen, whether employer, employee, or self employed, is a part of industry. When industry is condemned, the citizen condemns the thing of which he is a part. Politically, however, the average man thinks and votes largely as a consumer.

That is probably the fundamental reason why the public relations of industry leaves so much to be desired. We need widespread enlightenment as to the relationship of the citizen to industry and how he fits into the overall economy.

Industrial management should develop and propagate answers to such questions as: a) how does the free enterprise system work?; b) what causes periodic depressions?; c) what does management propose as a postwar operating pattern in the economy that is different from the pattern we had in the years preceding the great depression? d) how and why will these changes prevent another great depression?

Specifically, why can the man on the street expect to have more under a free enterprise system than under a system of production for use with state controlled distribution? We need less propaganda and more education. Not one American in a hundred understands that consumption is the mother of employment, that sales into ultimate consumption or use is the only road to steady jobs, that competitive salesmanship determines who gets and keeps the jobs.

As a matter of realistic fact, technology has advanced production to the point where the only road to freedom is the selling road. Does anyone think that the profession of selling would have the place it does in the opinion of the public if this truth were generally known? We have got to sell selling, sales management, and salesmen as the real job makers.

If we could develop this kind of economic literacy, we might have reason to hope that the majority of our citizens would understand these truths; that individually and collectively we can have no more than we produce; that to have more we must not only produce more but trade more and consume more; that any kind of limitation on salable output lowers the standard of living of all; that our standard of living can rise no higher than the balanced level of our production, purchases, investments and sales; that buying power withheld from expenditure and investment shuts down equivalent employment and decreases the total amount of goods and services we can consume; that if we are to have a maximum growth in our standard of living we must reverse the trend toward limiting individual output, and, whether management or labor, give a full day's work for a full day's pay.

A second vital public relations item is to find the proper place of Government in our economy. Obviously, we are permanently in a mixed economy—part governmental control and part free competitive enterprise. But it certainly should be the prerogative of the people

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rather than the bureaucrats to decide what is to be the continuing function of Government in our industrial structure. We should stop damming bureaucratic interference with private enterprise and be specific, by verse and paragraph, as to what we want done by Government and what areas we want left to ourselves.

IX: New Structures for Industrial Cooperation—

Our economic interdependence, our universal individual capacity as purchaser, trader, and consumer, makes structures for intra-industry and inter-industry cooperation, integration, and coordination a vital necessity. The counter-balance to bureaucracy and government interference with competitive enterprise is the ability of industrial management to organize cooperative planning and action, and new standards and ethics, in the light of public interest—thus avoiding unneeded and hampering legislation.

Because of a fear of anti-trust laws industrial management has shied away from cooperative activities. In the interest of preventing further unwarranted governmental controls in the economy, this complex must be removed. There are thousands of perfectly legal cooperative plans and activities that could be undertaken in the economy for mutual benefit which would stimulate rather than restrain trade. Representative groups, covering every livelihood and walk of life, should be organized at every level from the grassroots to the National Capitol, with the sole objective of developing cooperative plans to provide the people with what they want while retaining the people's freedoms.

We might call such a development a FOURTH HOUSE OF DEMOCRACY. The guiding principle of such a structure might be: "that which is attained by discussion and agreement without legislation tends to enforce itself, viz: all established ethics, while that which is obtained by legislation **must be maintained by the freedom-destroying police power of government.**"

The stewardship of industrial management in this new age is now broadened to include the areas of competitive relations, customer relations, distributor relations, public relations, and governmental relations, as well as the former responsibility to stockholders and employees.

These new factors may not be left out of executive decisions in the future. Nor will these detract from the profit motive; they will simply add stability to the profit chance.

It is highly probable that the use of these new management techniques will, moreover, perpetuate our profit and loss system and the concept of private property.

The last is the most important of all the new techniques of management; the most promising of our new frontiers:

X: Release of the Spiritual Nature in Man—

Today everyone knows that we have the materials, the manpower, the machinery and the money to make our country a veritable para-

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dise on earth.. . The only missing ingredient is the right spirit. That spirit which will bring about teamwork in motivating, mobilizing and coordinating the energies and capacities of all conflicting groups toward a common goal.

What is this "right spirit"?

If we review again, in the light of our discussion here, the five things previously mentioned that the American people want — opportunity; security; a rising standard of living; an equitable division of the joint production of capital, labor and management; to treat others decently as well as to be treated decently—we find that the first three are dependent upon the fourth, and the fourth upon the fifth.

It is seen, then, that the number one requirement of the American people is to treat others decently that we may be treated decently. The more complex and interdependent our civilization becomes, the more necessary it is that we do right by the other fellow if we would have him do right by us, and it must be mutual—cooperation is a two-way street

While today we spend most of our time and thought in criticizing others for not acting decently in our selfish opinion, at the bottom of our hearts we really want to be decent ourselves. We must release that part of our natures. Man being created by and in the image of God is really constructive in his basic nature. It is only to the extent of his inability to cope with his physical and economic environment, under the necessity of self preservation, that man has been predatory.

The noblest aspect of the history of man has been the story of his instinctive and gradual improving attempts through all his generations to adjust his environment so that he could be constructive instead of destructive.

The whole history of democratic laws which curb our selfishness reflects this aspiration.

A still more inspiring picture has been the growth of economic ethics outside of the area of legislation.

At best, however, our spiritual growth has not kept pace with our economic, scientific, materialistic and intellectual progress. That is the root, tree, and branch of our present economic dilemma.

Tomorrow's management will have no other choice than to apply spiritual principles to economic activities if management is to continue free.

Common sense tells us that we must find the answer to the problem of what is the morally correct division among the producers of the joint production of capital, labor and management.

There seems to be six bases for division: 1) arbitrary distribution by ownership; 2) arbitrary allocation by management; 3) the unrestricted working of the law of supply and demand; 4) arbitration by disinterested factors; 5) legislative action; and 6) the application of moral compunctions in a negotiated solution—the Golden Rule in action!

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It has been demonstrated that the first three will not work without industrial warfare leading to government action to curb the selfishness of all groups.

The fourth and fifth also probably lead to use of governmental police power.

Idealistic as it may seem, the application of the Golden Rule to this problem is the really practical answer. Only this formula has the flexibility — the give and take — which will perpetuate the freedom of competitive enterprise. This is the promised "truth that shall make you free".

Freedom in our interdependent society may be defined as: **That privilege afforded man by his fellowman of pursuing his needs for opportunity, security, and a rising standard of living in an environment devoid of human exploitation.**

Freedom itself is not God-given — God has given us "the truth that shall make us free". Freedom is of our own making! "Make others free and you shall be free" is the formula. In today's interdependent society freedom and responsibility are inseparable. The scope of our freedom inevitably parallels the extent of our individual and collective responsibility. Freedom and responsibility will automatically find the same level!

The relationship between **doing right** and **having rights** is a closed circuit in an interdependent economy. None can escape the workings of this law—whether capitalist, worker, manager, farmer or governmental official.

The rights of private property, the profit system and private enterprise are the effects of which economic ethics are the cause.

Can this new concept of Freedom be realized in our postwar civilization?

I believe that it can if management and labor leadership will utilize the right spirit which is inherent in man's nature—though deeply buried. Is this idealism?

In the light of the history of our generation, with its loss of 20 million lives and a trillion in treasure, idealism is demonstrated to be the most practical thing in the world? All real progress is applied idealism! History is made when the conservatives become aggressively idealistic—our founding fathers proved this.

How Will We Go About This Practically?

It is really quite simple. We must organize industry into "families" instead of "enemy camps". We have gotten into the bad habit of referring to others with whom we have disagreements as "they"—"they", the labor group — "they", management — "they", the bureaucrats—"they", the Jew, the Catholic, the Negro, the Protestant.

We must start by thinking in "we" terms instead of always thinking "they". We must substitute a team spirit for a "versus" complex. Our habitual "power over" tactics must give way to "solution with" techniques.

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We have learned, under the tragic spur of war, to fight and die together as a team. Can we not learn to work and live together as one family?

It is an encouraging truth that only through the teamwork of Capital, Management and Labor — even though war-inspired — have we come to this threshold of a paradise on earth.

When we contrast our circumstances with the other peoples of the world, we should be deeply ashamed that we are jeopardizing our freedoms with internal strife and dissension and the failure to accept individual and collective responsibility.

The nation which has learned how to release atomic energy should be able to learn how to release the "right spirit" and to work together as a team of Capital, Labor and Management.

Every individual business constitutes a human family; all are workers in one capacity or another. Every industry is a related family; all American industry is an interrelated brotherhood. If we can adopt a "family" attitude we may settle our differences around the conference table in a spirit of family loyalty and brotherhood, but to do so successfully, the "heads" of the family who speak for employers and employees must have **the will to find agreement.**

Business management in the family cannot successfully "high-hat" labor leadership. Labor frequently acts upon impulses of the heart and emotions. Business management customarily proceeds from an intellectual basis. Management must learn to think and act in the right emotional as well as intellectual terms. That is the "family spirit" at work. **Get the emotions right first and reason has a fertile soil in which to grow.**

If each leader around the conference table has an emotional focus on the right spirit—the spirit of tolerance, agreement, give-and-take, and brotherhood—the family can work itself out of most situations. If enough individual leaders can develop the correct emotional focus, America can be everything we all wish for it.

I want to close on a note of individual responsibility. Not one of us can escape our individual responsibility—our personal challenge in tomorrow's world. "The renewal of the right spirit" starts with the individual. It is time to take an inventory of our personal stewardship; a time for measuring our personal responsibility under these challenges of tomorrow.

Our generation, in its go-getting materialism, has acquired the bad habit of delegating to hirelings our individual responsibility in the fields of education, of religion, of politics, and of human relations. As individuals we must again accept our personal responsibilities in each of these areas.

Every man and woman in this room has a capacity for leadership. Every man and woman here exercises leadership in some sphere of economic management. Everyone here has some power over others.

That power within you is a spiritual power; it comes directly from God; it is loaned you as a stewardship! We say truly in the universal

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prayer: "Thine is the power". Every time you exercise the power you have over others you are expressing the divinity within you. It is man's highest privilege—the power to be God-like in his relations with others.

If we are utilizing our power over others selfishly, arrogantly, greedily, unjustly, we are counterfeiting our Creator and the power within us inevitably diminishes. We inevitably get the same negative result we experience in breaking any other of God's laws.

On the other hand, if we use our powers with justice, humility, kindness, tolerance, mercy and charity, as God would use them, the results are constructive and our power grows. This is the "right spirit" at work.

It is reported that, near Brussels, in Belgium, is a great cemetery miles square. It is filled with row upon row of white crosses. Those graves are the graves of American boys. A GI put a sign over the entrance to that cemetery which I hope will remain there forever. It reads: "Because you would not think, we had to die"!

If the leaders in this room and Americans like us across the land, think deeply enough and act wisely enough, it shall never be said again, "they died in vain".

Remarks Opening The Discussion Session

By

WARREN W. LEIGH

Professor of Commerce and Business Administration
University of Akron

It seems to me that in the past, we marketers—due to the necessity of focusing on our own problem of moving our goods through the channels of trade in adequate quantities—became just a bit myopic. We concentrated on our job, sometimes to the exclusion of everything else. Consequently, it was not uncommon for us to preach our grand sales story to the extent that we sometimes hid our heads in the sand. We failed to see and understand the larger distribution problem.

Mr. Hood paid a particular compliment to the university group. That group did help business men keep above that narrow type of thinking. The speaker this afternoon, however, attained an eminence that is most unusual—and in fact it is far ahead of that attained by most of us on the staffs of the universities, where we toss these problems around, and we do not have the monetary interest in them that Mr. Hood and his company does.

The first point that I should emphasize this afternoon is the splendid job that Mr. Hood has done, not only in bringing the problems of marketing to our attention, but in showing us some of the techniques—in fact, in laying down a road chart—by which we can proceed to solve most of the problems that confront us. In addition to this, I must emphasize the particularly splendid overall view that he took of the whole problem and the social implications involved.

Now, just one or two things before opening the discussion—and I want you to do most of the talking. I wonder, Mr. Hood, because of goods being debauched by our factories in a tonnage of almost two and a half times what it was pre-war, if we are forced to take the position where we're channeling those goods, pushing them through the channels of trade, and planning our entire distribution. In other words, is this the extension of the "Taylor system"—as applied by F. W. Taylor—to the marketing system. Well, it's going to accomplish a great deal: we are going to take the goods out far more effectively than we did before; we are going to take them out at relatively lower costs. But unless we do more than this, will we not run into the self-same problem that industry today is encountering through the application of the self-same mechanistic approach? We may have a human revolution on our hands—it may be a consumer's revolution.

Talking about tonnages—I wonder if we, as marketers, give adequate attention to the intangible factors in consumption, as we do to those things by which man lives. While we're working with such

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products as better kitchen cabinets, better refrigerators, better insulation, and so on, are we not now thrust into that much larger field where we have to give consideration not only to the marketing of those things, but also to the exact role of intangible values in the totality of the consumer complex?

Can we keep this economy operating; can we keep the balance; can we do our marketing jobs unless we, as marketers, address ourselves beyond the mere consumption ratios to the part played by these intangible factors? As our standards of living rise, the more the intangible factors enter into the living scheme. I wonder sometimes if we, in our research problems, are giving adequate attention to that thought?

One point that I should particularly like to emphasize that was brought out very effectively—and I can do little more than emphasize it—is the point of the business man going to Washington and the reliance that we put upon government activity.

During the past three and a half years, much of my time was spent in the Rubber Director's office. Frequently, we found the rubber company executives coming in to ask for certain regulations that the Government should make to solve some of the industrial problems. They wanted us to help them keep out some of those doubtful practices that were likely to return again; also, to help them manage the price threat which many of them saw ahead.

The danger of that approach cannot be over-emphasized, and I concur one hundred per cent with Mr. Hood—that the place to do that is out here on Main Street and not back in Washington.

Another point that should be stressed is the labor program. We, in this particular territory, are fortunate in having several firms in Cleveland and elsewhere that have been leaders, in trying to solve the manpower problem. Perhaps we can study their operations with profit.

The figures that were shown indicate that the returning veterans are not too interested in selling; and I can say to you, also, that students in the universities are not looking favorably upon selling, for those self-same reasons.

We have a job to do here. We have to have high calibre men to move the goods of production into consumption and to educate consumers to the possibilities—or translate goods into consumption. But we have to do something more than just preach selling. We have to put forth some ideas and acts. Here is a field in which we can all experiment.

We know about the low pay of people in the retail field. Here, we need to improve the labor, the working conditions, and also the

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pay. I wonder, however, if we have given adequate thought and attention to the incentive systems and other programs that might be employed to tap the resources of manpower which, after all, is our greatest resource.

It strikes me—and I throw it out for your discussion—that in the retailing field, where overhead costs frequently equal fifty per cent of total selling cost, the common practice of paying bonuses of one to three per cent for sales over a quota alone is not enough. Have we studied the possibilities that might be accomplished by taking a new approach to the human problem? What that approach is might be hard to say.

In this connection, I am reminded of a study I saw in California a short time ago. Two large ranching operations were studied. One of them was a great, privately-owned ranch of some twenty or thirty thousand acres; the other area or community was similar in every respect, but it had been turned over and was being farmed by independent owners. A sociological and economic study of the two comparable situations were made. The number of businesses servicing the community, the volume of goods purchased, the type of homes—the social environment generally—were considerably higher in the one where the individual activity prevailed than in the other. Of course, it's logical; it's natural. Now we need to carry that democratic concept into industry a great deal further than we have carried it.

There is one final point I should like to throw out. I wonder if we need to go one step beyond the point that you made, Mr. Hood, as to the social job of management? If we are going to avert government control, is it going to be necessary for business men to evolve and work out some kind of cooperative or advisory program where we can bring to bear our best thinking on economic policy—as proposed by Dr. Vannevar Bush and his committee for the scientific development and guidance of the nation? By some such means, may adequate economic and overall social thinking be brought to bear to coordinate our business activities and to provide that overall picture over those areas where our particular business activities cannot cope?

I know that you have a lot of questions that you want to ask. If ever a paper covered the field and presented us with grand opportunities for questioning, Mr. Hood's paper has.

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DISCUSSION

Question: You mentioned that on survey of some 12,000 returning veterans, there were only fourteen who wanted voluntarily to go into retail selling, indicating that there was no great interest manifested in entering this field. I would like to ask whether, in the survey of the interviews, you found the reason for this?

Mr. Hood: I do not think we have the specific answer. We have been studying this in the Sales Executive Club for a number of years and have just come out with a book, "Selling As A Career". We have developed that and the Commerce Department is doing some work on another. I think this is probably the psychology of resistance to selling in the twenties and thirties, when we had the development of installment selling and door-to-door canvassing, the door-bell would ring and the youngster, who is now the grown man, answered the door and yelled upstairs, "Mother, there's a man at the door", and mother would say, "That's just another salesman: send him away." We have grounded in the youth of our country a negative attitude toward selling. I think a good many of our salesmen, in the last twenty-five years, have come into selling by default instead of by intent. They could not get any job in any other way. That builds a negative attitude toward selling in the minds of individuals and is the sort of thing we have got to surmount.

Question: I would like to ask a further question if I may. Assuming that is one of the main reasons, what is your suggestion as to how we might overcome that?

Mr. Hood: To face the issue squarely, as long as you have freedom of choice in the market, you must have people doing the selling jobs. Actually, the preservation of our democracy is up to our salesmen: they should be the most welcome people in America. We must educate people as to a better standard of living. If we had our preachers, our educators, everybody who has leadership of the people talking about better things, we could change that attitude towards selling.

If the students in the universities are not interested in selling, whose fault is it? Is it not something that should be thrown back into the laps of the professors—at least in that area—so that the students can really understand that selling is a career; not only a career, it is a profession.

Question: I recall rather vividly that one of our candidates for high political office said that *caveat emptor* (let the buyer beware) had over-run itself, as far as the consumer is concerned, but rather, it is now *let the seller beware*. Hasn't that accusation done a lot of harm in this country?

Mr. Hood: As far as that accusation is concerned, I think that has been the truth. There has been too much of high pressure selling

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in American life, exploiting the consumer in the drive for sales. We must be realistic. I do not believe in high pressure selling; I believe in service type selling, which is low pressure selling and low pressure selling often has more real force than high pressure selling. It is an engineering principle that is right. We have had high pressure selling in America and it is obnoxious.

Let me remind you of the insurance man who calls up time and time again and asks for an appointment — if he insists too hard, that is high pressure selling, if he comes in and beats on the desk, and knocks the edge of the desk off with his high pressure, it certainly will not aid him in his selling. On the other hand, there is an approach in this insurance business and other businesses that is just as gracious as could be and that is the man from whom you buy your insurance.

Statement From the Audience: I am not surprised that your interviews with veterans indicated a disinclination on their part to sell. I wonder, however, if that is only relatively true. It is my impression that if we had the right conditions, those boys would "go to town and sell".

I happened to have been in a situation where I sat for these years—through the depression—with men who wanted to go to work, and I feel that if a good sales job, plus **security** were available, they would take it in a minute. We are over-sensitive on the subject of security. These boys, from their past experience, now want to get back some place where they will not be out of a job the next day. They meet this situation when they come back, also: the income in retail sales work is much less than the very swollen incomes that we have built up during the last two or three years, and of course, looking at what their friends got and what they are still getting, they are disinclined to take a sales job. However, if you offer them a job at selling that provides even a low starting rate, but if it promises something in the future, you will find, I think, that you can get salesmen. I think business can do that one thing.

Also, I think, in our organization charts, that sales ought to be treated as a stepping stone to management. We have developed a bunch of fast race horses in the barn whom we call salesmen and we never invite them into the management picture. There is a break in the chart, because we do not promote those fellows and select them for what, perhaps, might be their managerial qualities.

We finally get them to a point where they build up a sort of super-salesmanship which is unrealistic for the company and then we must be on guard so that they do not hypnotize us. We are on the defensive with a good salesman, whereas we should not let it go to that point. We should develop our salesmen with the thought of eventually bringing them into the managerial picture.

We should all be concerned about getting plenty of salesmen of the highest calibre as soon as the economy adjusts itself.

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Question: Don't you think that the desire to sell must grow on a person? I can readily conceive that the thought in the minds of many of the boys who answered your question might have been "Do I want to sell **what?**" Where you take a new man into an organization, he knows little about the product, and is likely to be frightened to death when he realizes that he must sell that product. However, keep him ten years and get him enthused about it and give him a chance to learn about the product, how good it is, and let him watch the other fellow sell it; then ask him the question ten years later and the chances are that he will say, "I can really sell that product."

Mr. Hood: I think your point is well taken. Another thought that is brought on by the comments of the previous gentleman about the security angle: I think one of the resistances on the part of the returning veterans is that they think in terms of commission salesmen, which is often the type of selling that is offered first — a straight commission proposition, and personally, I think it is unethical. It is an alibi for poor management to offer a straight commission proposition. If we do not clean this up, we will have legislation against commissioned selling in five years. That is a part of the security picture.

We should offer a man a living wage and incentives in terms of increased production for better selling. I think that is also a part of the security picture.

I think your point about these returning veterans is very good. More of them are probably interested in selling than have exercised the voluntary choice of going into the selling field. Many of them will make excellent salesmen. The people who make a success in any walk of life are those who are enthusiastic about their jobs. A salesman who just loves to sell is a successful salesman! I have been a salesman all my life; I think it is the greatest and the finest job in the world. If we could get that spirit into our salesmen of America, we would not have to worry about anything else.

Question: I should like to ask if it is not true that the spread in what a salesman would get varies very greatly in different fields? If he happens to go in one field he may get a relatively low reward; while in another field he may get a much higher reward. In other words, looking at the picture as a whole, has not the spread between payments for equal work been quite incomprehensible?

Mr. Hood: I do not think that is entirely true outside of the commissioned structure. Excluding the losses of people who have been exploited in the commission field, I do not think there is too much difference in the return of selling. In any type of business work, there is always a difference in experience and you get paid for the experience you have had.

At the retail level, you get experience. As you go up from that level and increase your experience and knowledge, the remuneration

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becomes higher also. There are no limits in American life as to what a salesman can earn.

Statement From the Audience: I am not sure that I agree with all this. It seems to me that we talk about this and we talk about that and we settle these things at a meeting somewhere and those who make up these groups do not know the economic ethics of the situation and the first thing you know, they are fixing this and that and making matters worse in the long run. If you let competition and the free forces of economics go to work, you do not have to bother much about it.

If the pay which a man is getting is too low in one industry and you have provided for the free play of economic forces, conditions will adjust themselves. It is very dangerous to start to fence off salesmen with commissions and rates.

The cost of distribution is coming down and I am very much afraid of touching the forces responsible for this change. I should not even say that there should be no commissions. The commission is an incentive plan and a lot of men would not work without it. A salesman may feel that he has built up sufficient good-will with his customers that he can loaf; if he wants to do that, he has earned that right. If the company does not like it, let them get someone else.

Mr. Hood: I do not think there is any disagreement between you and me. I agree with you that we should stop passing laws to correct undesirable situations, if we can arrive at a voluntary decision, by general discussion.

We should look into the ethics of commissioned selling, study it, bat it around a bit, and if we come up with the answer that it **is** an alibi for poor sales management, then we ought to do away with it voluntarily.

Any laborer is worthy of his hire. When you bring a man in, you should ascertain what this man needs as a minimum wage for his family, and should explain to him that as long as he is on the payroll he will get that every week and every month, and further he has an opportunity to make almost unlimited earnings in addition to his wage, because of the company's incentive plan which is based on production. It seems to me that that is a logical substitute for the commission incentive.

Statement From the Audience: Looking at this problem for a number of years, from the University angle, I should say that many people see selling as a glamorous job in many cases; they see the high salaried salesmen and decide they want to go into selling. When they are interviewed for their jobs, they are oversold on its possibilities and therefore, it seems to me that there is no need for governmental regulation, but rather an intelligent presentation on our part as to what the selling job is. Not only in the universities but throughout the schools generally, in our guidance work, in the Y. M. C. A., and in

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similar agencies. There must be an intelligent presentation of its difficulties, its responsibilities and its opportunities. On the other hand, it is necessary that industry make a better analysis of the sales jobs that it is offering, and assist the new salesman over the rough period when he is starting on the job so he can really try out his wings in selling and then guide him along to better salesmanship.

One of the problems that I see ahead and it is a grave one for marketers is to really find channels to get our ideas down to the consumers, without too much loss of the force. With the social shuffling that has occurred, I think that presents some real problems.

Mr. Hood: One of the most important, I think, is something on which I touched in my talk: Is the public invited to these discussions of economics of our country? I think we have got to take economics to the people, but we must first make it understandable to ourselves, and then we have got to have the people out. What you have been hinting here, in two or three comments, Professor, is what some of us call a "fourth house of democracy". We have the legislative and the administrative and the judicial houses based on economic independence. We are in a condition of economic interdependence today and we need a fourth house in democracy — a house that is entirely separate from the judicial, the administrative and the legislative houses, at all levels, down to the community fourth house. Wherever there is a legislative body, there should be a body like this, a fourth house, where the community gets around the table — the New England Forum idea — and settles the problem without resort to legislative action.

Do not depend on legislation; settle the problems of the community through this fourth house, around the table. "How are we going to have sustained employment?" "Is the factory accumulating an inventory and what are we going to do?" "What is the relative basis of consumption, approximately, in our particular community?" Fundamental economic problems can be made dramatic and interesting to the people and they can come to some conclusions for action that do not require legislation and that keeps it out of legislation, and you have flexibility. You do not put a noose around the neck of your freedoms.

If you have that kind of body in the lowest possible level of the community, there should be a township fourth house, a municipal fourth house, a state fourth house, and a national fourth house. In the National Planning Association, in which we have been active for a number of years, we have been working on that philosophy. In the National Planning Association we have labor, agriculture, business and government sitting around the table, discussing these national problems and trying to arrive at an agreement. The first two years that we were in there, we wrote a declaration of interdependence; that is the first thing we did because we knew the situation required a declaration of interdependence. It is that type of thinking, I believe, which would be the answer to the problem that you have given here.

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Question: During the middle thirties I attended a course called "Business Ethics" in which we studied attempts of the trade associations to develop codes of ethics similar to those of the medical profession. I should like to know what you think of the prospect of the revival of some sort of association, in our industrial lives, that will aid along that line?

Mr. Hood: Trade associations in developing their ethics, considered quite generally their own relationship, as an industry, to the public and did not take into consideration the other segments of the economy. This new type of structure must be truly representative of every phase of the economy; the productive phase, the labor phase, the professional phase, the consumer phase — they must all be represented around the table and then you arrive at what is best for the public's interest.

Financial Policies Essential To Full Production

By

MURRAY SHIELDS
RUSSELL WEISMAN
L. M. HOSTETLER

OPENING REMARKS

By

L. M. HOSTETLER

Manager, Research Department
Federal Reserve Bank of Cleveland

On behalf of The Economic and Business Foundation I should like to call the meeting to order, for an evening's discussion of "Financial Policies Essential to Full Production."

The subject is exceedingly timely and the two speakers are eminently qualified to examine every aspect of the problem. Monetary experimentation and expedients seem definitely to be retarding recovery and reconstruction in many war-torn countries. Europe is rampant with every conceivable type of ill-advised financial and fiscal policy.

Our country has not been immune to such practices. There has been much disagreement as to the efficacy and long-term consequences of domestic fiscal and monetary policies. Thus far the direct effects have not been as pronounced here as elsewhere, but there is a considerable body of public opinion which feels that it is only a matter of a delayed reaction and that unless policies are changed unfavorable developments will ensue.

The first speaker, Mr. Murray Shields, is economist and vice president of the Bank of the Manhattan Company. He is author of a number of widely-read works on finance and banking, the latest of which is "Prosperity, We Can Have It If We Want It," published a few months ago in collaboration with Donald Woodward.

Our other speaker is none other than Mr. Russell Weisman, chief editorial writer and financial columnist of the Cleveland Plain Dealer for a number of years, and a long time member of the faculty of Western Reserve University, as professor of business and economics.

Balanced Prosperity With A Balanced Budget and Debt Reduction

Address by

MURRAY SHIELDS

Vice-President and Economist
Bank of Manhattan Company

It is time to balance the budget and reduce the debt of the Federal Government by a vigorous retrenchment in expenditures; that is economically the categorical imperative of our time.

Few people realize how much our economic destiny now depends on that obvious old-fashioned, common-sense action; and certainly with respect to the problem of financing postwar prosperity that is the key piece in the whole picture.

The experience of the past two decades provides incontrovertible evidence that we cannot have durable prosperity by tinkering with gold, by central bank manipulation, by erecting grandiose corporations for doling out credit, by forcing interest rates arbitrarily low, by colossal investment in public works, or by grants, doles or subsidies. We can be positive of this because it is clear from our "bold experiments" of the past 15 years that prosperity cannot be had by economic sleight-of-hand. The common denominator of these schemes, which were sold to the people as panaceas for the economic ills of the time, was spending by the Government of more funds than it collected in taxes.

We should know, however, that without **budgetary balance we cannot revitalize the basic economic incentives which activate the expansionary tendencies inherent in the private enterprise system or maintain a high level of production once it is reached.** Budget balancing is not, I hasten to point out, the only economic necessity if we are to have prosperity, but it is clearly the indispensable element in any program designed to produce that condition. I submit that budgetary balance has now become imperative for several reasons.

Budgetary Balance Necessary Because Debt Is Already Too Large

First, our national debt is already too large. By the end of 1946 the total of United States Government securities outstanding will be close to the stratospheric figure of \$275 billions. At such a level our national debt is high by whatever statistical standards one applies to it. The fact that **our debt has increased about \$225 billions or 450% in the past five years** ought to tell us that we have had enough of that for a while. **A few years ago our Federal debt was about half the national income and a fraction of the roughly estimated national wealth. Today it is close to two times the national income and ap-**

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proximately equal to the national wealth. Our future has been mortgaged and the mortgage is high as compared not only with our income and our wealth, but with the taxpaying capacity of the people.

But this is not all, for the Federal Government has assumed substantial commitments which are not listed on the liability side of its balance sheet. There is the Social Security System, which is set up on an actuarial basis such as to bring it within a few years to a point where Social Security tax receipts will not provide adequate funds to meet benefit disbursements. There are the various Government corporations which may at some time need more money to meet their contingent, if remote, liabilities. Among these are the Federal Housing Administration, which is obligated to issue billions of dollars of Government-guaranteed debentures if it becomes necessary to repay holders of insured mortgages; the Federal Deposit Insurance Corporation, which has insured over \$100 billions of bank deposits; and the Federal Savings and Loan Insurance Corporation, which has similar obligations to its members. There are also the obligations to provide additional capital above the initial contribution to the International Monetary Fund and the International Bank for Reconstruction and Development, to extend direct loans to foreign governments for economic rehabilitation, and to make loans through the Export-Import Bank. These obligations, some absolute and some contingent, run into many tens of billions of dollars, and they, together with the present size of the debt, make it obligatory that our Government get its fiscal house in order without further delay.

It is fashionable in some quarters to minimize the importance of so large a rise in the national debt and it has been said that we need not worry about the Federal debt because the State, municipal and private debts have declined. The fact of the matter is that, while the Federal debt has been increased \$250 billions since 1929, all other debt is down only \$20 billions. There is also a disposition to argue **that the size of the debt makes no difference because we owe it to ourselves.** This is sheer nonsense. To be sure, it is true for the community as a whole that we owe the debt to ourselves and it is as true of other debt as it is of the Government debt. But it is meaningless to discuss the debt solely in terms of the community as a whole. We know that a debtor can sweat and squirm and get into all sorts of difficulties in trying to pay off his obligations even though his debt represents an asset of someone else in the community. The fact is that some of our citizens will, under a system of progressive tax rates, have to bear virtually all of the tax burden of the debt and that some—not all—of our citizens hold the Government securities. **It is a colossal swindle for our people to be told that debt does not mean anything; debt is, in fact, the most profound and pervasive fact of our time. For decades ahead we shall be adjusting our economic life to the many and difficult problems growing out of our bloated public debt.**

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Budgetary Balance Necessary Because of Dependence of Financial Institutions on Government Credit

Another reason for balancing the budget is that such action is needed to restore confidence in the basic fiscal integrity of our Government. **The soundness of our monetary and banking system depends on confidence in the Government's fiscal probity. This is a fact of massive significance,** for two-thirds of our money supply rests on United States Government securities and the money supply had expanded to nearly three times its size when war broke out in 1939. **Government securities now represent about 80% of the earning assets of the commercial banks, about 65% of the earning assets of the savings banks, about 50% of the total assets of the Federal Reserve Banks, and about 45% of the assets of the life insurance companies of the country.** The stability of the financial institutions necessary to the functioning of our economy is now dependent on the credit of the Government, which in turn must rest on a sound fiscal system.

Let me emphasize that there is, in what I have said above, no implied criticism of the fiscal policies of the recent past. When the monetary and speculative excesses of the 20s finally culminated in one of the most vicious deflations of modern times, private credit collapsed. The Government then appropriately came to the rescue by using its own credit to reestablish confidence in an obviously dangerous structure. Then, after an interval of largely misguided efforts to force recovery by pump-priming, war again required the unstinted use of the Government's credit. War fiscal policies may not have been perfect, but within the framework of a democratic system, tax policies probably were as severe as anyone had any reason to expect. The Congress rightly hesitated to levy taxes which would involve the risk of forcing people of moderate means, whose incomes were not expanded during the war, to liquidate their homes, insurance and securities, for such people represent the great stabilizing political force in a society such as ours. The War and Victory Loan Drives represented a great effort to finance the war from funds obtained from non-bank investors and those Drives were reasonably successful. Mistakes were made, to be sure; they were to be expected when our fiscal authorities were faced with the need for financing war expenditures of up to \$100 billions per annum — an amount materially in excess of our total national income in peace time.

This, therefore, is no time for acrimonious debate as to what might have been done. But the facts of our present position demand that we return immediately to sound and time-tested standards of fiscal conduct. **We have used our fiscal reserves so lavishly that it will be very serious indeed if we resume the deficitteering of the 30s in the decade ahead. We could afford to make mistakes with a debt of \$25 to \$50 billions but when the Government's debt is \$275 billions we must forego the easy course of spending more than we take in.**

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A balanced budget now would attest the nation's determination to keep its credit standing inviolate; a continuance of deficit financing would imply that we had lost our claim to integrity in fiscal affairs.

Budgetary Balance Necessary As Insurance Against Inflation

A third reason for balancing the budget is that without it we cannot insure ourselves against inflation. Much of what we have been hearing recently on the subject of inflation is economically naive. But everyone who has cut his eye-teeth in these matters knows that the danger of inflation can be eliminated only by a return to policies of fiscal solvency, so that the nation's money supply will not continue to be increased by bank financed deficits, **and** if production is increased so that the demands of the people for goods can be met. How infrequently have we heard from significant Government officials any statement which even touches the heart of this problem. They declare frequently that labor must get this or that; but have we heard anything more than half-hearted warnings from them that, if excessive labor demands cause a wave of strikes, production will be reduced and the danger of inflation immeasurably increased? And have we heard from more than a few of our Government officials any really impassioned pleas that the budget be balanced or any really strong warning that if it is not we shall ultimately face a condition where inflation will be almost inevitable?

Inflation is vitally dangerous to everyone, and not to big business alone. It works the greatest hardship on the wage-earners and the recipients of fixed incomes. The Government has an obligation to these people, and to the millions who have placed their savings in Government bonds, life insurance and savings deposits, to assure them that their money will not be lost through a decrease in the value of the dollar.

During the war Government deficits were unavoidable. There is no point in debating here whether they might have been held to lower limits, for nothing we can do now can reduce them. But they have left their heritage in about \$100 billions of new deposits and circulating money in the hands of individuals which, if spent in addition to the current incomes received by the people in the years to come, cannot help but exert a strong upward pressure on prices.

This new money may not all be spent in the near future; but while it exists the threat to price stability will remain. It would certainly be asking for trouble under the circumstances if we were to add to the volume of liquid purchasing power by incurring further deficits. **The time has come to turn off the spigot of unnecessary Government expenditures so that we can, by balancing the budget, stop the rapid expansion of money supply which began in 1933. This is the only way to make certain that we shall not experience an inflation which would leave the nation's productive and financial organizations prostrate.**

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Budgetary Balance and Debt Reduction Necessary To Give Federal Reserve Freedom to Use Its Powers

The size of the public debt makes it difficult if not impossible to use the traditional instruments of quantitative credit control in stabilizing prosperity once it is reached. The Federal Reserve Board is charged with the responsibility for holding bank credit expansion in check when prosperity threatens to be transformed into an inflationary boom, and for encouraging credit expansion when business is falling off. This, the Federal Reserve Board can do by changes in re-discount rates to make borrowing from it more or less expensive, and by changes in member bank reserve requirements, or by changes in its portfolio of securities to reduce or expand the ability of the banks to make credit available. But the use of any of these devices inevitably has an effect on interest rates. And, here is the rub. **As long as the Government must borrow to meet large deficits it will be fearful of any action which might disrupt the market for its securities, and the Federal Reserve would not be free to use its powers to tighten money rates even though the economic situation in general were urgently to call for restrictive action.**

With the customary instruments of credit control impaired, the chances of checking an inflationary boom will be greatly reduced. Thus constructive action to balance the budget and reduce the debt has become imperative in order to restore the potency of these control devices. It is not too much to say that without budgetary balance, debt reduction and policies which will encourage non-bank investors to buy securities, so that present abnormally large bank holdings can be reduced, the Federal Reserve Board will be powerless to fulfill its intended role of stabilizer of the supply of money and credit. This is a serious matter, for a powerful central bank organization is an essential agency in the modern world. It is time now to restore the power the Federal Reserve lost when it had, necessarily in wartime, to consecrate itself to the defense of the price structure of the public debt.

Debt Reduction Necessary If Private Enterprise Is To Expand

Another reason we need not only to balance the budget but to reduce the debt substantially is that nothing less will provide a sound basis for enduring prosperity. Under existing circumstances, continuing deficits or a disposition to regard mere balancing of the budget as the maximum attainable goal will inevitably foster uncertainty as to the prospects for inflation and the safety of our financial structure. Such an environment is not conducive to active business expansion. It fails to provide business men with a sound basis of confidence in the future on which to plan an expansion in their operations, and it fails to afford investors a reasonable basis for judging business risks. It may well stimulate speculation but kill investment in the true sense of the word.

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Debt Reduction Necessary If We Are To Accumulate Reserves of Borrowing Power For Use In Later Emergencies

Debt reduction is essential also because we need to build up a reserve of borrowing power so as to put the nation in a position to cope with future emergencies. Many of those who try to convince us that "debt does not mean anything" apparently believe that the nation will never again face an emergency where it will have need for the use of its reserves of financial strength. This is a curious thing, for the people who preach this philosophy are in the main those who have been in positions of responsibility during a period which has been marked by a series of serious emergencies. It is difficult to see how they can be so sure that the programs they recommend for use today will prevent emergencies when the policies they recommended in the past have only brought us from one emergency to another. It is interesting to note that the emergency which was proclaimed during the bank holiday of 1933 has never officially been terminated. It is to be hoped that the nation is moving out of the phase of continuous emergency; but it would be foolhardy to assume that we shall never again have need to use our credit. We shall be in a better position to cope with difficult situations as they arise, to borrow on favorable terms, and to borrow without upsetting the balance of the economy, if we have balanced the budget and have made substantial progress in debt reduction during years of good business and high national income. Nearly everyone agrees that once we have bridged the reconversion gap between war and peace a period of potentially great prosperity lies ahead. That period should not be allowed to pass without substantial progress in debt reduction.

Every increase in the public debt increases the burden of taxes which must be levied to pay interest. Even at the low level of interest rates now prevailing, the interest charge alone is nearly as large as the largest tax revenues in any year in the pre-war period. Under such conditions as we shall face, it is imperative that we reduce expenditures wherever possible to lessen the tax burden on investment and enterprise. The interest savings from debt reduction may be small but they are not negligible, and they are cumulative — every one makes the next one easier.

A Program For Balancing the Budget

A balanced budget in the future is attainable. I want to emphasize this, for it was only recently that the Secretary of the Treasury said the same thing and it was an interesting fact that it came as quite a surprise that anyone in the Government could believe that budgetary balance was possible. It is a fine thing for him to have made such a statement, but let us not take too much encouragement from it, for the Secretary made it clear that he would expect balance in the fiscal affairs of the Government only if taxes remain high; and

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he assumed a colossal level of expenditures. This same point of view is reflected in the President's budget message. But taxes should be and are probably going to be reduced, for everyone knows that present tax burdens represent a solid and impenetrable barrier to large scale new investment by private business. The need is to balance the budget by curtailing expenditures, not by holding taxes at enterprise-breaking levels. We must gird ourselves for a real fight to resist the demands of pressure groups for increased expenditures and to stand firm against appeals to spend money for impractical and self-defeating programs like those so popular a few years ago.

At this point it is appropriate to take note of the tendency to assume that our Federal Government necessarily must spend \$20 to \$25, or even \$30 billions per annum in the years ahead. Aside from the fact that in the five years, 1936 to 1940, years not notable for the timidity with which the Government spent money, expenditures averaged \$8.3 billions, it is abundantly obvious that we shall need no such level as even \$20 billions when war-connected expenditures have been completed. I submit that the Federal Government can limit its expenditures in the following rather obvious ways:

1. By planning military expenditures so that the country will at all times be able to mobilize quickly to fight tomorrow's battles with tomorrow's weapons, instead of maintaining an organization fully mobilized and ready to engage in global conflict at a moment's notice. We should be able to maintain a high military potential, extend our system of military education, maintain a great laboratory and experimental organization to develop the most powerful weapons and the "know-how" to use them, and have a productive plant ready to produce the mechanisms of war on short notice at an annual cost of not more than \$3 billions. It is obvious that we undermanned our military establishment in the year preceding World War II. Our average annual expenditures were only \$700 millions during the period 1925 through 1937. But, if in that 13-year period military expenditures had been \$3 billions per annum instead of only \$700 millions, we would have invested \$39 billions in the military instead of only \$9 billions. Much of the talk of necessary military expenditures of \$10 billions or even more per annum is as unrealistic in one direction as were our pre-war policies in the other.
2. By replanning our public works program so as to eliminate all Federal public works except those which can be justified as aids to production. We should know by now that public works expenditures are not a sure-fire road to real prosperity, that if such expenditures are undertaken when business is good they help to turn prosperity into a temporary boom, and that if they are undertaken when business is bad they act as a

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cushion against the ill effects of depression. Federal public works expenditures should be close to zero in good years, so that they can run to as much as \$3 billions in years of bad business, and it ought to be clear to anyone that with a debt of \$275 billions we are not in position to finance any except essential public works.

3. By eliminating the superfluous, unnecessary and costly aids to agriculture. Farming has become one of the most prosperous industries in the country and it is absurd for those who construct the postwar budgets to assume that the bonuses, subsidies and grants, which had some justification when agriculture was prostrate, should now be continued. We need a house-cleaning in this area and a few hundred millions per annum ought to be ample to finance the indispensable research and the regular costs of the Department of Agriculture, which today is greatly overmanned.
4. By subjecting Governmental departmental costs to a searching investigation. With a debt as high as that we now have, it is time that the nation's leading management consultants and efficiency experts be employed by a joint Congressional and Administrative Committee to make a thoroughgoing analysis of how Government costs can be cut and Governmental efficiency increased. This is no time for reshuffling Government agencies or for well publicized but generally insincere attempts to reduce expenditures. With a Government as far in debt as ours is at the moment, we need immediate action to assure efficiency in our Government.
5. By liquidating the institutions of emergency credit, such as the Reconstruction Finance Corporation. They will not be needed in the good times ahead and, moreover, it should be remembered that they were designed as emergency and not as permanent organizations. They were not authorized to effect reforms, to take the place of existing financial institutions, or to act as a club over such institutions, but simply to alleviate temporary distress. They did an essential job and in times of crisis, should they re-occur, they may be needed again. But the time has come to instruct the emergency corporations to liquidate their present assets and to cease spending the public's money until they are again needed.
6. By deferring establishment of a "cradle to the grave" Social Security program until the nation can afford it. It would be only fair to extend the coverage of old age insurance and the range of protection afforded by unemployment insurance to everyone who needs it; but the country would be well advised under present fiscal conditions to resist the pressures of the

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Federal Government for new and ambitious social programs.
Our people need jobs, not more insurance.

If a program* such as this were adopted Government expendi-

*For a detailed discussion of the program outlined here, see "Prosperity: We Can Have It If We Want It" by Murray Shields and Donald B. Woodward
tures in years of good business would be under \$15 billions, which would enable us to reduce the tax burden to a point where capital could come out of the storm cellar and get back to work. We could, furthermore, with corporation income taxes of about 20% and levels of taxation on individual incomes considerably below those of today, have receipts in years of good business of \$16 to \$20 billions or thereabouts. This would make it possible to retire our debt at a rate of \$5 billions or more per annum in good years and to hold the deficit in years of poor business to a figure not much larger than that, even though receipts were reduced and expenditures increased.

Let no one tell you that budget balancing is impossible in the years ahead. It will not be easy, but it can be done if we are determined to get our fiscal house in order.

Reorganization of Budgetary Function Desirable

The need is so pressing and the problem so difficult that basic changes in the budgetary practice of the Government and in the legislative procedure of Congress may be called for. Our present budgetary technique is inadequate in the sense that there is no agency in either the Administrative or Legislative Divisions of the Government which administers the budgeting function in the way that has become commonplace with well managed business organizations. In the Congress, proposed taxes are taken up by one pair of committees, proposed expenditures are considered by another pair of committees; there is little coordination of their work. Expenditures frequently are considered without relation to the tax revenues which will be available; taxes are levied with little consideration of the amounts that it is proposed to spend. With budget balancing so pressing a problem, some means for coordinating the activities of the appropriation and the taxation committees would appear to be called for.

The budgetary situation in the Administrative side of the Government also leaves much to be desired. To be sure, there is a Bureau of the Budget and it prepares for the President a document entitled "Budget of the United States," which is full of figures and about the size of the telephone book for a city of one to two million people. But that report is little more than a tabulation of the expenditures which the agencies hope to be able to induce Congress to approve and an estimate of taxes which are likely to be collected if there is no change in existing tax rates. These documents rarely give evidence of any serious note concerning the need for reducing expenditures when a deficit is anticipated. This is not surprising since the Bureau is part of the office of the President and the Budget Director is appointed by

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the President. The Bureau thus is not in a position to strike out at administrative agencies, which are always jealous of their activities and ambitious for more money, since the heads of these agencies were appointed by the President, too.

With budget-making so casual a process, it is not surprising that a budgetary balance — in those infrequent years when it is attained — comes about mainly by accident and not by deliberate plan. It is time now that we plan for budgetary balance and, while better budgetary coordination between the work of the Congressional Tax and Appropriations Committees and the work of the Budget Bureau would be a step in the right direction, little is likely to be accomplished until there is a firm conviction on the part of both arms of the Government that we must restore balance between income and outgo.

Let me emphasize that continuous balance in the budget year after year is not necessary nor to be expected. There will be, unquestionably, some periods of business recession when tax receipts will fall off. It may be necessary at times for the Government to undertake useful public works and to spend money for the relief of unemployment. But, it should be possible most of the time to have a budget surplus. We have had enough of deficits for their own sake, deficits to prime the pump, deficits to offset unbalance in savings and investment, deficits aimed at maintaining purchasing power, and deficits to prevent depressions which are not even in sight. All these panaceas are self-defeating and none of them has worked, for depression and unemployment have continued — until wartime — to be our lot. The time has come when we have no alternative but to try a more conventional device — namely, a return to policies of fiscal solvency; and I venture to predict that if we do so we shall enter one of the greatest periods of prosperity this nation has ever experienced.

I want to end this address by repeating the statement with which I started it:

It is time to balance the budget and reduce the debt of the Federal Government by a vigorous retrenchment in expenditures; that is the categorical imperative of our time.

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Remarks Opening the Discussion Session

By

RUSSELL WEISMAN

Editorial Staff

The Cleveland Plain Dealer

I sat here, really in my element, as Mr. Shields talked as long and as much and as impressively as he did about the importance of a balanced budget.

It seemed to me that since about 1933, I have been fighting what I often thought was a one-man battle for substantially the same theme as Mr. Shields has forcefully developed here this evening. Occasionally I got a little support from Mr. Hostetler, my associate here on the left, but if there is anybody left in Ohio except Mr. Hostetler, who thought as I did, he didn't get up to be counted in those days.

I should like to supplement what Mr. Shields said about balancing the budget by saying that the form and effect of some of your productive energies involve at the same time very definite measures for stabilizing our currency. Go back 20 years exactly, when we were still considering the problems of postwar reconstruction following World War I. If there was a single theme in the financial discussions of those days as regards the measures and policies necessary to the full employment of our energies, it was what we then called "sound money." When, in 1925, Great Britain showed the way back to the gold standard, it was with the almost universal conviction that the first important step to postwar reconstruction had been taken and it was not a surprising thing that Great Britain should have moved to put her currency on a sound and stable basis. The British had learned that 100 years earlier — 130 or 140 years earlier -- as also did the British in the eighteenth century — they learned that the starting point of productive trade and investment was stable currency.

I think it is not a coincidence that this period of protracted depression, of very great uncertainty and instability was a period in which this essential feature of the full employment of our energies was completely lacking.

Now, it is not my purpose here this evening to make a plea for the gold standard. I do not know whether the gold standard can or cannot be restored, but I hope it will contribute something to this discussion to say that until — by some means or another — the violent fluctuations which have so often characterized the relationships of the currencies between the several nations have somehow been eliminated, it will be folly, in my opinion, to talk about the full and effective use of all of our energies and all of the world's energies.

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We are inclined, I think, as a result of the war just behind us, to lay ever greater stress on the importance of the economic cooperation and collaboration. In spite of the fact that a great deal of our commercial and economic policy of the 1930's was definitely nationalistic in its scope and import, nevertheless we have been led to believe, only within the last week or two, particularly in connection with the British loan and the White Paper published in connection with it, that our plan for the immediate future is a plan looking toward international trade, international commerce, and financial relations on an international scale; and I say to you gentlemen that it is ridiculous to plan for such internationalism except in terms of stable currencies.

To make certain that I am in no sense minimizing the importance of balanced budgets or in any sense disagreeing with Mr. Shields, I want to point out that a balanced budget, in my opinion, is the next preliminary to a sound currency. Once the problem of unbalanced budgets has been solved, then I think that sound and stable currencies will follow as a matter of course, whether they are based upon gold, whether they take on some of the forms of modern currency-management or whatever form they take — I think will be relatively unimportant. Currencies will be sound and stable if and when budgets are balanced, in my opinion, and not before.

I should like to add to that observation this fact: that the reason the gold standard failed after it was restored by the leading European countries, beginning in 1925, was that the restoration of gold was not supported by the sound policy that Mr. Shields has advocated in his scholarly paper.

Mr. Shields talked in some detail about the relation of the public debt to financial stability and to full employment. He did not touch upon an aspect of that situation which I think he will agree with me is quite important; and I think he would agree with me that the distribution of the public debt is likely to be a factor quite as important in the economic future of this country as its size.

The inflationary potentials in the current economic picture are due primarily to the fact that so much of this public debt is now lodged in the commercial debts, and some \$20,000,000,000 of it in the Federal Reserve Banks. I am fearful that, whether the budget is balanced or not in the years immediately ahead, that more — rather than less — of the public debt will find its way into the banks. That, I think, follows almost as a matter of course.

In the first instance, you have X billion dollars — Mr. Hostetler could tell you how many billions of dollars is owned now by business corporations. (to Mr. Hostetler) What would that figure be?

Chairman Hostetler: \$25,000,000,000 or \$30,000,000,000.

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Mr. Weisman: I should feel quite safe in saying that to most of the corporations owning this debt, it is the equivalent of cash. They expect to use it for reconversion purposes as working capital; that is to say, a year or two years after the end of the reconversion process, those business corporations will not, in the ordinary course of events, be the owners of the securities. They will have sold them outright or they will have been run off in the ordinary course of events, and the government, in reborrowing, will have no resource but the commercial banks or the Federal Reserve banks. There is an even larger factor or element in the public debt there, which may also find its way into the commercial banks.

Certainly it will be so if we, as "E" bond owners, begin to act upon the early counsel of the Treasury and count upon "E" bonds as the down payment to the trip or whatever you may wish. That is to say, if we proceed to spend these bonds that are now in the hands of individuals, 60 or 70 or 80 billions of them at this time, as we are led to believe we might properly do, then that portion of the public debt will also flow into the commercial banks; and the inflationary potential here will be greatly increased.

The point I am trying to develop is that a sound financial policy, from the point of view of full employment and the effective use of our energies will involve, in my opinion, the diverting as rapidly as may be, as much as possible of this indebtedness from the commercial banks into the hands of individuals and institutional savers.

That is not a simple process, but if it is possible to balance the budget, if one can envision a tax structure such as Mr. Shields has in mind, I think he can also foresee a condition in which the amount of the debt will pass from the commercial banks, bank deposits credit will contract as a consequence, capital will be substituted for credit, and a sound, broad foundation will be laid for reconstruction and reconversion.

Finally, this third point: I am less optimistic than Mr. Shields seems to be as to the relatively low figure at which we may reasonably expect to balance the budget. It is a matter of history, and not a pleasant bit of history, that public expenditures in the United States after wars have stabilized at a figure approximately four times above that which was prevailing when the war began. That is to say, after World War I we went in with, roughly, budgets of a billion dollars and, try as we would in the decade following the war, we were barely able to get below \$4,000,000,000 in the decade of the 1920's. We edged our expenditures up, as you know, during the 1930's — got up into the zone of eight and nine and ten billion dollars, at which level it would seem fair to believe Federal expenditures had been stabilized.

If the unhappy bit of history to which I have just referred is repeated and if Federal expenditures are quadrupled as a result of

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our participation in the war, we shall have to think in terms of budgets not of 10 or 12 or 15 or even 20 billion dollars, as Mr. Shields would like to do, but possibly of budgets of 30 or 32 or 35 billion dollars.

I am all for retrenchment. I should like to see this thing cut just as much as it can be, consistent with the maintenance of public services. If I could be assured, however, that we could balance this budget for the next decade at the figure of 25 billion dollars, I should feel that the financial stability of this nation has been assured.

If there is any difference in our thinking in this matter, it is as to whether you may reasonably expect to stabilize here or there.

With our potential, I think we could raise taxes or produce revenues of 25 billion dollars a year without imposing upon business any undue burdens or creating conditions unfavorable to the creation and investment of new capital. I should like to believe, as a result of our experience in this war, that when we come to revise our tax structure, we shall be willing to take an important leaf from the British book and rely permanently — in much larger measure than we have before — upon excise taxes. Experience demonstrates that the income from excise taxes is a fairly stable, steady thing. Come good times or bad times, the British drink their tea and their beer and their ale and pay their taxes, and they are heavy dependents upon excises, which have been for many, many years a stabilizing factor in their budget. I think it would be a very unfortunate thing if, with their experience in mind and with the productivity of our excise, we failed to avail ourselves of that element of stability in our tax structure in the years immediately ahead.

To inject one new thought into this tax discussion, I should like to observe that all of the states, save one or two, have now very substantial treasury surpluses.

Those of you who live in Ohio know that our treasury surpluses have been the subject of political controversies for many, many years. The same thing has been true in less measure in New York, Pennsylvania, and other states.

In many of these cases, those surpluses are the product of either sales or excise taxes; and if the states are in such good financial position, it seems to me that we might well give some consideration to a change-over under which a part of the sales and excise taxes would accrue, not to the state, but to the Federal establishment which needs the revenue very much more than do most of the states at this juncture.

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DISCUSSION

Question: I wonder if Mr. Shields would care to comment on claims sometimes made regarding the five billion dollars which he suggested be taken out of current earnings and used to replace some of the borrowings — would that money go into the hands of people who would be apt to spend it?

Mr. Shields: The next two to four years should be a period of very good business with comparatively full employment; and that will be the time to repay some of the debt and to liquidate some of the inflated money of the wartime period.

Question: I wonder what kind of interest rates we are to have to take some of the securities out of the banks?

Mr. Shields: I do not know what the right level of interest rates will be, and it is doubtful if anyone else does, but we do know that the lower the interest rate on government obligations, the less will be sold to people and the more will go to the banks.

I am persuaded that the government should re-survey its whole set of interest rate policies, and attempt to redesign the government obligations so that they would be more attractive to the people.

Question: If I understood Mr. Shields correctly, he said the Board of Governors' ability to control credit expansion, and credit today, is largely nullified by virtue of the fact that we have an unbalanced budget. Is there anything that the Board of Governors might do to tighten up the money market that would inevitably reflect in the interest rate? Will it be at all possible for the Board of Governors to do anything in the future, assuming a balanced budget which would influence or cause a rise in interest rates due to the fact that such an action would cause an almost immediate depreciation in the value of government bonds, which are held by all of our financial institutions of all types, and reflect adversely upon the market for government bonds, and cause a considerable financial loss to those various institutions?

Mr. Shields: In order to be able to restore complete freedom on the part of Federal Reserve banks, it would be necessary to have a rather large reduction in the debt and a shift of ownership from institutions which can be adversely affected by change in interest rates, to institutions and individuals not likely to be adversely affected by that.

Nevertheless, it does seem to me that the key piece in the picture is balancing the budget. A treasury which has to borrow more new money each year is almost forced to take a different point of view with respect to the whole question of interest level than one which does not have to borrow new money but has merely to refund its obligations as they come up for call or maturity. The Central Bank

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organization might still be under some pressure, but to my way of thinking, the pressure would be much less acute if we balanced the budget than if we did not.

Chairman Hostetler: I should be glad to have Mr. Weisman add his comments as to what he sees in the way of deficiencies or weaknesses in the existing power of the system to bring about a stable economy.

Mr. Weisman: There is just one observation I should like to make. I think that the change in the regulation which made it possible and sometimes seems to make it necessary for the Federal Reserve banks to acquire substantial amounts of government securities on their own accounts was a very grave mistake; and now that the war emergency is over, I think that repeal of that provision would be a good and a logical starting point. Am I not right to believe that once we gather up these commercial bank funds that we begin the hardening of a short term money rate. If we get a little hardening of short term money rates, we can do some refunding — we can get short term borrowers at one and a half percent. I have visions of slowing up this first by getting this short term rate up by a refunding operation.

Whether, and how well, we can have long term rates above two and a half percent, I do not know and I am not sure that we have to— maybe we can get the bulk of it at two and a half percent. I think capitalistic money will not prosper on two and a half percent interest.

Question: I am interested in how you would get the bonds and money of the banks in the hands of private investors.

Mr. Weisman: I am not anxious to get money out of insurance companies — they are there permanently. I cannot imagine a better place for public debts to be held than by insurance companies, but in the Federal Reserve Banks and the commercial banks — there is not a worse place for public debt to be held. The way to get it out is to offer to investors who want the security of government— to trusts, to institutions—a security as Mr. Shields said that is attractive from the investment point of view.

In the last days of this Victory Loan Campaign, the sales suggested that there might be a great demand for securities of this type. I do not think it is a problem beyond solution. Make the thing attractive and, at the same time, do everything you can to make conditions attractive for the re-entering of commercial banks into the commercial banking business and the thing will follow along logically.

Do not get the impression that I want to get the bonds out of insurance companies or mutual savings banks or commercial institutions of thrift. It seems to me that a year or so immediately ahead — because of the very nature of commercial banks — they will absorb monies that are held elsewhere. I should look to offsetting it here by individuals buying direct from the banks. I have more hope about

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somewhat higher money rates than most of my associates do. Just how to work it out without imposing an undue burden upon financial institutions that have this heavy investment, I do not know, but I think that we make a very great mistake when we make a fetish of government bonds always at par.

I do not think you dare to freeze any financial market permanently and expect free enterprise to have room to operate.

Question: I wonder if Mr. Shields would care to give us his impression of what the consequences might be of a period of deficit financing over the next two or three or five years — in other words, if we do not make some effort or succeed to some extent in reducing the debt and living within our means during the good business years that may be ahead, what does the future hold for us?

Mr. Shields: I cannot answer that. Frankly, I do not know, but it is clear that we must follow a course designed to insure us against certain risks. Whether they are in the immediate or in the distant future is not clear, but we can say that the higher the debt goes the more dangerous it gets, the nearer we are to the point where it can cause some real trouble.

Chairman Hostetler: Did you want to add anything more to that, Mr. Weisman?

Mr. Weisman: I have agreed so completely with what Mr. Shields has said up to this time, I do want to register one exception to his thinking. I am not nearly as convinced as he seems to be that it is all easy going for the next two or three or four years ahead. There are so many parallels in our present economic situation, close parallels between the France of the 1920's and the Great Britain of the 1930's—parallels involving unattractive conditions for the creation of capital, parallels involving such thin margins of profit as to discourage productive enterprise. I should think that business people would be ill advised if they got down on their elbows and said, "Now the war is over; we have 240 billion dollars of liquid funds, and it is going to be easy from here on." I am afraid it is not.

Question: In connection with balancing the budget, what is your opinion as to the result of the prospective lowering of taxes on corporations and individuals? Would it have been better to leave the rates as they were originally or to lower them, as is now in prospect?

Mr. Shields: That is a highly controversial question. A lot of people think it was a mistake; a lot of others think it was an inspired step. I am inclined to believe that it was a good idea to remove the principal tax burden on corporative initiative but it is clear that what we ought to do in the future is to attack the problem of budget balancing, not by way of holding taxes high but by reducing expenditures and taxes.

Inflationary Pressures In The Postwar Period

By

EMERSON P. SCHMIDT

RAYMOND RODGERS

JAMES G. ROGERS, JR.

JOHN H. EVANS

OPENING REMARKS

By

JOHN H. EVANS

Vice President and Trust Officer
McDowell National Bank

This meeting, which is one of a series of sessions sponsored by The Economics and Business Foundation for the discussion of "American Economic Policies," will be devoted to an exploration of problems relating to "Inflationary Pressures in the Postwar Period." In this session we hope to discuss the influence of current business practices on the national economy and steps necessary to avoid inflationary repercussions.

Dr. Emerson P. Schmidt, Director of the Economic Research Department of the Chamber of Commerce of the United States, a member of the Supervisory Committee on Economics, of the Committee on International Economic Policy, of the Carnegie Endowment for International Peace, and editor of "American Economic Security," will discuss this problem from a businessman's point of view.

Mr. Raymond Rodgers, Professor of Banking in the School of Commerce, Accounts, and Finance of New York University and co-author of "Money and Banking," and "Consumer Credit and Its Uses," will discuss banking problems and their effect on inflation.

Mr. James G. Rodgers, Jr., Assistant to the Administrator of the Office of Price Administration, who is responsible for the general co-ordination of operations of the various departments of that agency and its field organization, will discuss this important problem from the point of view of government.

INFLATION CONTROL VS. PRICE CONTROL

By

EMERSON P. SCHMIDT

Economic Research Department
Chamber of Commerce of the USA

The Office of Price Administration in its efforts to control prices is dealing with the symptoms of inflation and not its causes. Since V-J Day, the inflationary pressure have been on the increase and in many sectors of the economy are likely to continue to increase. The black market is flourishing and in some instances is the dominant market.

Government policies since war's end have fostered inflation and are doing almost nothing to reduce the pressures. So long as this misdiagnosis and misguided policy continues, we are not likely to develop a stable price structure nor are we likely to dissolve the forces that are driving our people increasingly into hostile and opposing camps.

Decontrol Progress?

The OPA, eight months ago, let it be known that in its view about 70 per cent of the ceiling prices would be decontrolled by June, 1946, 30 per cent remaining under control. Now, we are informed that these figures probably will be almost reversed. Indeed, some government officials have voiced the opinion that there is no prospect in the months—and perhaps even years—ahead, of getting out from under control. Under strenuous pressure the OPA suspended a number of price ceilings, chiefly during the period when debate in Congress was hottest.

Shortages in innumerable lines actually exceed those of wartime. New controls have been inaugurated since V-J Day. A manufacturer of floor coverings predicted last summer that it would take about five months to fill his pipe lines through to the ultimate retailers so that normal business operations would be possible. Recently he stated that scarcely a yard of inventory has been accumulated, the demand being so intense that now he refuses to estimate the probable date when any type of reasonable balance will exist. Shortly after V-J Day the WPB stated that nylon hosiery would exist in abundance by Thanksgiving Day or at least by last Christmas. Yet one responsible manufacturer states that at the production rate of April, 1946, it will take a full year's production to merely fill the pipe lines from manufacturer to consumer and that "normal" conditions" under artificial price controls will not exist until some time in 1948!

Capital and Labor Shortages

The view is widely expressed that price controls are retarding production. Nearly every manufacturer and distributor is able to cite shortages of commodity after commodity which he needs in his business for production or for sale. Suppliers cite hundreds of such cases in explanation to their buyers for the delay in delivery. Hundreds of items are out of production because of low ceiling prices. In some cases, workers must be laid off because of shortages of raw material

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or component parts. Certain foods are exceedingly scarce because of the way price controls are administered. Thus butter is relatively scarcer than table cream and ice cream. Specific ceilings on feeds and on beef may cause shortages of meats relative to other food. All this is the almost universal testimony of businessmen and farmers.

Yet the OPA denies most of these allegations and insists that production and employment are at all time highs. According to the Federal Reserve System's index of physical production the rate of output is nearly 50 per cent above the 1939 rate. Employment is nearly 20 per cent above the 1939 figure. Indeed in every month since V-J Day we have had more than "full employment" as usually defined, after allowing for strikes and lay-offs induced by strikes. Our labor force appears to be relatively fully occupied.

We must conclude, therefore, that the OPA, while retarding total production to some indeterminate extent, has been primarily responsible for distorting production. These distortions, leading to pronounced scarcities of many essential goods and components, give the appearance of creating underproduction when as a matter of fact, to a substantial extent, correcting all pronounced shortages in commodity after commodity would involve diverting men and machines from things now produced, so that correcting shortages in one sector is likely to create shortages elsewhere.

Moreover, rising wage rates coupled with the penalty time-and-one-half wage requirements for overtime under the Fair Labor Standards Act, have the effect of reducing the effective labor supply — the number of hours worked per week under rigidly controlled OPA prices.

Similarly, artificially low rents are keeping properties off the rental market, keeping people in quarters too large for them because they are such bargains, and forcing many families to buy homes at 50 to 100 per cent inflated prices, rather than to have to move. Side payments when renting a property have become normal in many cities. Rent control, too, merely deals with the symptoms of inflation and it is doubtful that we are making the best use of our limited housing facilities.

The national incomes appears to be running at a figure of approximately \$160 billion annually. Even allowing for price increases this constitutes perhaps a quarter or a third increase above the pre-war level. Yet, and this point cannot be overemphasized, our basic productive capital equipment in the aggregate was designed in the pre-war level to produce a national income under \$100 billion. We are told that at the present rate of national income, if New York City had double the hotel space which it now has, every room would still fill up, providing people could get in and out of New York City. Are we going to keep price control until New York City can double its hotel capacity? Is that what we mean by saying "price control should continue until supply catches up with demand?"

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The facts seem to be that in terms of the present level of earnings and the demand engendered thereby, we are woefully short of productive capital and equipment in textiles, in many lines of machinery, housefurnishings, motor car manufacturing, and so on, commodity after commodity. The American people with their high hourly incomes together with enormous liquid "savings" are making a demand upon the American economy which appears to exceed that of wartime. Price control, or no price control, many wants may remain unsatisfied for years ahead.

Why Are Inflationary Pressures Continuing?

- (1) The enormous deferred demands need no further spelling out.
- (2) Our wage policy both during the war and since war's end has been inflationary in the extreme. Perhaps never in history have a government's economic advisors been so grievously in error as were those of the present Administration before V-J Day. They could see nothing but collapse at war's end; therefore, promptly after V-J Day a number of steps were taken to counteract the imagined deflationary pressures. Wage controls were virtually abolished; Administration leaders urged higher and higher wages as though by marking up wage rates deflation could be prevented. Surely we cannot create jobs by making it more expensive to put men on the payroll.

On July 1, 1945, the Office of War Mobilization and Reconversion (Third Report, Page 57), stated: "The American people are in the pleasant predicament of having to learn to live 50% better than they ever have lived before." Although it was not intended to, this statement has been widely interpreted to mean that wages must be raised 50% and this helped to set the stage for subsequent extreme wage demands.

The Office of War Mobilization and Reconversion also prepared a document (mimeographed) entitled Facts Relating to Wage-Price Policy (OWMR-502) which was designed to show in detail just how much loss of take-home pay would result from each of several factors and that wages could be raised by about one-fourth without any price effects! It was further argued that wartime efficiency gains made wage increases possible without price increases. The document purported to prove, under varying assumptions, that straight-time hourly wage rates could be increased by 24 per cent without price effects! This document was never published but copies of it "leaked out." After some heated sessions with non-government economists, the government economists themselves decided that the document was too vulnerable to warrant its publication. But the damage was done. Labor unions quoted it extensively to prove that the indicated wage increases could be made without price increases. It is only fair to state that John W. Snyder, Director of OWMR, never approved this report.

Some of the same government economists who wrote this document "advised" the General Motors fact-finding board, which recom-

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mended a huge wage increase. But the numerous price increases, grudgingly granted since then and the Executive Order of February 14, 1946, are a frank admission that the government's economists were in grievous error. But to repeat, the damage was done.

But this was not enough. The Department of Commerce, set up to help business with authentic figures and data, also prepared a "wage-lifting without price increases" document (entitled "Domestic Economic Developments" (October 25, 1945)). This was a study of the automobile situation and purported to prove that the wage rates in the motor car industry could be increased by 25 per cent without any price increases. This document was "inadvertently" released by the Secretary of Commerce, although it still has not been officially published. Again, the damage was done.* The notion got abroad that profits were fabulous, corporation treasuries were swollen and that wages could be greatly increased without anyone having to pay for the treat. Labor took full advantage of both documents.

Furthermore, government administrators continuously harped on raising purchasing power, as though purchasing power were something apart from production. Money is a medium of exchange — it is not, in itself, purchasing power. If it were we could merely have the mail man bring us a bundle of daily purchasing power.

This bit of history is recounted not in order to blame someone for our impasse. Rather, its purpose is to make it clear that, unless we can secure a higher order of economic insight and statesmanship, we are likely to continue to be led into more and more economic chaos.

When the first Fact-Finding Boards made their reports, the members of the boards and key men in the Administration were still under the delusion that our transition problem was deflation. So they recommended 15 to 20 per cent wage rate increases. Even if this diagnosis of impending deflation had been correct, which it was not, the theory of raising wages when deflation is threatening was thoroughly tried in the 1930's with such adverse results, that one might have expected a sounder prescription.

Before it was discovered that our postwar problem was inflation rather than deflation numerous substantial wage increases had been inspired, recommended, or ordered. Wage controls were virtually abolished and the unions were urged by the government to see what they could get, which frequently in practice meant tying up a company, a whole industry, or a whole community, by means of a paralyzing strike and mass picketing where necessary.

The Executive Order of February 14, 1946, states that it is the Administration's wage policy to encourage general wage increases across the board up to the levels already established where these in-

*Immediately after the settlement of the General Motors strike, the Secretary of the Department of Commerce publicly recognized this document to have been in error. (NEW YORK TIMES, March 16, 1946, p. 1.)

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creases have been secured since V-J Day. Thus, it is inevitable that wage rates of nearly all workers will be increased in retailing, wholesaling, service, and manufacturing, by about 15 per cent to 20 per cent. Nothing less than this will be acceptable. By December 1945 straight-time hourly factory wage rates were 54% above the 1939 figure and since then have increased still further. Meantime the fiction is maintained that the Executive Order may involve a "slight bulge" in the price line, but only a slight bulge which later will be straightened out.

Whether we can get a more rational labor policy is in doubt. Yet Senator Lucas, a long-standing supporter of the Administration's liberal philosophy, on April 5th, said that he would have to oppose the Administration's proposed 62% increase in the legal minimum wage. These are his words:

Mr. President, if this bill should become the law of the land, it would constitute, in my humble opinion, a most extraordinary measure of inflation. In view of what this bill in its entirety will do toward bringing about inflation, it seems to me it will be extremely difficult to keep the economy of this country from running wild. I am convinced beyond the question of a doubt that if the measure should become the law of the land it would be absolutely useless and futile for the Congress to attempt to continue any control over anything from this time on.*

Wages constitute approximately 70 per cent of all costs in our economy. To argue that wages can be increased in a relatively brief period by 15 or 20 per cent across the board (on top of wartime straight-time hourly increases of 15 per cent to 20 per cent) without any price effects except a slight bulge, later to be corrected, borders on the irresponsible. In unimportant matters the people can be misled without serious consequences. But when the facts come to be known about this wage-price situation in the months ahead the American people will be confronted with price increases **closely corresponding to the current wage increases**. Yet, they have been led to believe otherwise by **their** government. Not only do we have monetary inflation; we have wage inflation and a frustrated or delayed price inflation.

We have already been informed by numerous labor leaders that the current round of wage increases is merely a first installment. On April 16, fifteen railway unions whose members recently received a 16 cents an hour pay increase started proceedings to get an additional raise of 14 cents an hour.**

The Administration, by readily permitting wage increases "which do not require price increases," has taken too narrow a view of the price-and-cost-making process. Every wage increase, **even when it does not necessitate a price increase**, stimulates upward price pulls and the black market under current conditions, because of the increas-

*Congressional Record, April 5, 1946, p. 3244.

**NEW YORK TIMES, April 16, 1946

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ed buying power which it places into the hands of the public. Some wage readjustments at war's end were inevitable but they should occur primarily where employers find them necessary to recruit an adequate labor supply.

The quality deterioration in some commodities is a direct result of the whipsawing between the upward pressure of costs and wages and the downward pressure of OPA ceilings. Under rent control the landlord, too, must watch his pennies and dollars, and this explains why tenants during the cold of winter frequently complain of the lack of heat, undermaintenance, and the dilapidated condition of their shelters. In short, price control, if it is rigid and in defiance of cost movements, forces protective reactions and shows why price control without quality control is likely to become a shambles.

These events all have combined to increase uncertainty. Politically determined prices and wages are uncertain prices and wages. Absolute certainty cannot exist in the affairs of man, but when prices depend upon government decision confusion is added and uncertainty is increased because the behavior of government officials is inevitably unpredictable.

(3) Not only is our wage policy inflationary, the same must be said of our fiscal policy. Our methods of war financing, continuing deficits for over a decade and the "cheap money" policy lie at the foundation of our price control problems. Even the erroneous wage policy has been conditioned strongly by fiscal policy. Until we recognize the interrelationships between all these issues and policies and until we put our financial house in order, all other policies will prove ineffective in dealing with price controls.

One of the great "miracles" of war finance, it is said, has been the financing of our growing debt by means of a steadily declining interest rate. The Treasury has boasted of the low interest rates it is paying on government borrowing. The true story of war finance cannot be written, however, until all the evidence is in — some years ahead. The low interest rate has been made possible only by means of relying heavily upon the sale of government bonds to the commercial banks and to the Federal Reserve Banks.

As a result of this financing, currency in circulation (pocket money) increased from about \$6 billion in 1939 to nearly \$27 billion by the end of 1945. Demand deposits (check book money — the equivalent of currency) increased from \$27 billion in 1939 to over \$76 billion in 1946. This constitutes an increase in money from \$33 billion in 1939 to \$102 billion in 1946.* The American people and business have upward of

*In addition, time deposits rose from about \$27 billion in 1939 to \$50 billion in February 1946; savings bonds carry such a low rate of interest that there is not much premium on holding them to maturity increased to \$49 billion; many people view these as highly liquid savings to be spent as soon as goods are available or better investment opportunities open up.

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\$225 billion of "liquid assets," of which over \$145 billion are held by individuals. With the artificially low interest rates earned by some of these assets, it cannot be expected that people will want to hold these assets if a preference for expenditure develops or if a better opportunity for investment materializes. In other words, the fiscal situation of the government may be vulnerable and unstable. It remains to be seen whether our methods of war financing have been a miracle or a mirage.

In 1939 our national income was about \$71 billion; our money supply about \$33 billion. Some such **relation** between money and national income has persisted for many decades. That is, we tend to have over the years about \$1 of money for each \$2 to \$3 of national income. Now, if this pre-war relationship between money and national income should tend to be reestablished by natural economic forces, our national income in dollars would tend to be about two to three times \$102 billion, which is our present money supply. This would mean a national income of \$200 to \$300 billion, in contrast to a figure of about \$160 billion at present controlled prices and regimentation.

To put the matter another way: It is not probable that the American people and American business would care to hold in pockets and in the form of demand deposits \$102 billion in money — a form which does not earn any return and which does not augment the owner's standard of living so long as it is in the pocket or lying idly in the bank. In other words, it is altogether likely that the owners of these vast liquid assets will want to do something with them. Either they will spend them in the months ahead for consumer goods and thus bid up prices more fiercely, or they will want to invest them in real estate, securities or in some other form. If they try to invest them in stocks, as many are now doing, stock prices will rise and we have inflation there, or they will invest them in real estate and then we have inflation in real property. Both are happening and that is why the government has tried to stop security speculation by prohibiting buying on margin and giving speeches against such speculation, and is now proposing to put ceiling prices on vacant lots, farm lands, and other real property.

Every time the government intervenes with one of its ceiling devices or other controls, the inflationary pressures just move over to some other outlet. The American people can be expected to continue to find ways of spending and investing their money, regardless of how fast the government claps on ceilings or closes loopholes first here and then there, only so long as the government chooses to deal with symptoms instead of causes.*

*Nor is this criticism of Administration policy based on hindsight. See: **MAINTAINING PURCHASING POWER IN THE TRANSITION**, Chamber of Commerce of the U. S. A., July, 1945. In fact the view that inflationary forces would outweigh deflationary forces after the war was set forth as early as September, 1944, in **INFLATION AND THE POST-WAR**.

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It has been argued that the federal budget will be short of balance by only a few billion dollars in the fiscal year 1947, and that the Treasury will not have to resort to any substantial borrowing in the several years ahead except for refunding operations because of large Treasury balances; therefore it is claimed that inflationary pressures through the Treasury will not be substantial in this connection.

This overlooks, however, the fact that (1) refunding may involve bank borrowing and that (2) the Treasury balance of about \$25 billion is now for the most part inactive.

Since it is assumed by the forgoing arguments of the Administration that tax revenues will not equal government expenditures and since it is assumed that the Treasury balance, now not only large but largely idle, will be steadily reduced to make up the deficit in revenue, the activation of these billions of dollars now in the Treasury will provide a powerful inflationary factor. To put the matter another way, at present the velocity of circulation of this huge Treasury surplus balance is virtually zero but steadily these dollars will be used to meet government payrolls, buy commodities and other services, thereby becoming purchasing power and making a demand on American industry for goods and services, directly and indirectly. This is a further inflationary pressure even though no new financing were involved.

As business expands it is inevitable that many concerns will be forced to borrow funds, which may create additional purchasing power, this making it all the more urgent that government fiscal operations work in the direction of reducing government requirements for funds.

It cannot be overemphasized that **production always finances its own consumption** providing no one is hoarding income. Therefore the pending boom and the high current level of production will continue to produce annually some \$160 billion or more of national income, to which can be added billions of liquid assets and past "savings."

The budget for the fiscal year 1947 calls for expenditures of nearly \$36 billion. What this means in real terms is that the government will be in the market for billions of dollars worth of goods and services. This may be further inflationary pressure.

Subsidies

Demands for the continuation of subsidies continue. During the war period the system of roll-back subsidies was inaugurated for the exclusive reason of holding the cost-of-living index in order that labor would not demand further wage increases. This effort to hold wages has now been abolished and therefore the wartime reason for maintaining roll-back subsidies has also disappeared. Today the American wage earner has an income which exceeds anything in peacetime history, and yet we continue to insist that we must subsidize his grocery bill. Such a subsidy is opposed by practically all farm groups and business groups. It increases the deficit in the United States Treasury

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and thereby, at least potentially, is inflationary in this respect. Furthermore, by depressing prices it makes the consumer's dollar go further and in effect creates that much additional excessive money to spend in other markets, if not in the subsidized markets themselves. Subsidies also distort prices and hence production.

The OPA by concentrating exclusively on subsidies and price controls has been dealing with the symptoms of inflation and that explains why instead of progressing toward decontrol there is clear evidence that in many sectors of the economy, controls are actually being intensified. So long as this economic myopia afflicts our price control policies they must fail.

Conclusions

The evil consequences of inflation are recognized everywhere. Inflation causes arbitrary redistribution of wealth and income; the instability of the value of the dollar is probably more responsible for labor trouble than any other single factor. Abandoning symptom-treatments by the OPA in favor of a program which abolishes the causes of upward price pressures would get us on to a real solution to the problem and would restore a free society.

This analysis, if it makes anything clear, demonstrates beyond dispute that price control fails to wrestle with the causes of inflation. It does not operate in any way to reduce the supply of money or liquid savings which are at the bottom of the inflationary pressures. Nor will price control prevent a further increase in the supply of money. Nor does it diminish the desire of people to spend, but the contrary, since to the extent that price control is effective, people's money goes that much further. It does not diminish the disposition to spend as shown by the rise in spending and the decline of savings since the end of the war, the unparalleled volume of retail trade, the amounts of travel and indulgence in recreation and amusement. Obviously it does not increase the supply of goods; no advocate of price control even suggests that it does.

The OPA for the remaining days of its life ought to guide the economy toward natural readjustments. Some suggest that price controls be continued until "supply catches up with demand." Might it not be wiser to abolish all ceilings wherever critical shortages occur on the theory that then manpower and other productive resources would be lured by the opportunity for profit and good wages into those sectors of the economy where shortages are most pronounced. The OPA appears to follow an opposite line of reasoning. We **have** money inflation, we **have** wage inflation and a frustrated price inflation. In a dynamic economy, some prices are always rising and some are falling. Instead of trying to hold a price line with a slight bulge, the OPA ought to take those steps which will lead to its own liquidation.

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But the OPA is dealing only with the symptoms of inflation; therefore the Federal Government should cut its expenditures, substantially overbalance its budget and the Congress should reconsider our entire fiscal and interest policy with a view to encouraging the demonetization of our debt, encouraging people to buy and hold government bonds and to remove as many of these bonds out of the commercial banking system as possible. Foreign lending must be geared into our own supply and demand conditions. Government surplus commodities should be sold more promptly, but in an orderly fashion, to help mitigate shortages.

Numerous people have said that pressure groups are flourishing in Washington as never before. But the more deeply the government intervenes in the price-making process and in the entire economic process, the more the people will be forced to organize into groups to protect themselves. The way to mitigate the pressure groups is to reduce the number of areas in which government intervenes.

We should have an immediate investigation of what would be a coordinated over-all decontrol program involving prices, wages, fiscal policy, foreign lending, surplus disposal, and all other factors that bear on our current imbalance between supply and demand.

Regardless of what Congress does with respect to the continuation of OPA controls, the results a year hence will be unsatisfactory to large sectors of our society. The OPA through its propaganda has put the Congress on the spot. Whatever changes are made, it is likely that Congress will get the blame for the unsatisfactory results under price control which appear inevitable.

The OPA takes pride in the fact that three out of four people appear to favor continued controls. Yet, one may wonder whether there should be much gratification at such a vote since it may be doubted that it is in any sense the expression of an informed or thoughtful economic opinion. Rather it is the evidence of the existence of another pressure group, because the answers to such a question must be governed by the feelings of housewives and others who are conscious almost exclusively of their function as consumers but not of their responsibility as members of a cooperative productive organization.

Furthermore, if we place the beginning of economic literacy and awareness of economic principles and events at the age of 20 or 21, there is no one in the country under the age of 25 who has ever intelligently observed the working of a free market system. In most agricultural commodities, no one under 35 or 40 has witnessed with mature observation a truly free market.

If price control is continued on and on, is this likely to so condition the American people to controls and make them so subservient to these controls, that they will ever generate enough individuality and realism to check these controls? Habit is a powerful force. Once

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the mind and individuality of man is suppressed for a considerable period of time, man loses his desire for self-assertion and self-expression; he becomes a prey for further regimentation. The general public acceptance of price control more than eight months after V-J Day, when it was a free society for which we fought the war and which we were promised, is evidence of a decline of American individuality. The character and fibre of a people are a nation's greatest asset. The problem of price control is not merely an economic question.

We need to remind ourselves that by 1928, five years before Hitler came into power, German public authorities were in control of over 50% of the national income (in spite of which the German economy suffered its greatest collapse in history and the people were driven into hostile and opposing camps). A government crutch can be used too long.

The society of man is at its best when people are loosely knit together by the free market through which they may express their interests in the supply of and the demand for goods and services. The free market is impartial and minimizes compulsion and coercion. The consumer is free to buy or not to buy.

The market may never operate perfectly. It may at times cause hardship but it is the form of economic society which the American people, given a chance to understand it, actually desire.

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"EFFECT OF THE LARGE VOLUME OF BANK DEPOSITS AND CURRENCY ON INFLATION"

By

RAYMOND RODGERS

Professor of Banking

School of Commerce, Accounts, and Finance

New York University

First, let me make it clear that I do not represent any particular segment of the body politic. While I shall discuss the inflationary pressures engendered by the huge volume of bank deposits and other current purchasing power created by wartime deficit financing, I am not a banker and do not represent banking. Instead of advocating a particular course of action, I shall confine myself to elucidation of the problem and an attempt to draw, for your guidance, some logical conclusions as to future developments.

Socrates, more than 2000 years ago, said that before discussion you should "Define your terms." Such advice is indeed salutary with respect to any consideration of inflation. So, before going any further, the meaning of the word "inflation" as I shall use it will be explained, because in everyday usage it means all things to all men. Basically, the word means an increase, and in economic usage it generally signifies a **sharp** increase with reference to other economic factors. There are as many kinds of inflation as there are things. **Thus, there can be goods inflation, credit inflation, wage inflation, price inflation, etc.** Any of these may be very serious (even disastrous) to the economic well-being of a country. But, since most people mean **price** inflation when they use the word "inflation", it will be so used by me—that is, as meaning a very sharp and economically undesirable increase in prices of commodities and services. Furthermore, the spiral of prices and a wild, unreasoning scramble for goods characterize real honest-to-goodness price inflation. As everyone knows, it is one of the greatest economic catastrophes which can befall a nation. So, when an economist uses the term inflation, he should mean something serious — not just a 5 or 10 per cent increase in prices. In recent years there has been so much self-serving, loose talk about inflation, that the idea has become commonplace instead of striking the terror which it should.

Let me give you a hint of the meaning and the economic consequences of real inflation. As you know, the world's outstanding example of genuine inflation is what happened in Germany in the early twenties. The awful tragedy of such inflation is graphically demonstrated by the following fact: The 19,000,000,000 marks in all the German savings banks—worth at par of exchange \$4,500,000,000—dropped at the height of inflation to a value of $\frac{1}{4}$ of one cent!

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Some of the ideas I shall advance may sound strange to you business leaders. In anticipation of this, may I quote Webb Miller, the famous chief of the London bureau of the United Press, who lost his life in a train accident during the blackout. In his book, "I Found No Peace," Miller says: "The most important thing I learned professionally was that the truth about anything is difficult to obtain; that the more I studied the various aspects of any particular subject, the more qualified, the less definite and clear-cut my opinions become. Twenty centuries ago Greek philosophers discovered there is no exact truth except in mathematics. . . . I have learned that the only way to retain a firm, clear-cut opinion about anything is to know little or nothing about it."

Our economic dilemma is that we want many things and we have the liquid purchasing power to pay for them, but the supply of goods is not as large as the demand. Any **one** of the following developments can solve our problem and avert wild inflation:

1. Decrease in demand.
2. Decision to hold rather than spend liquid funds.
3. Increase in supply of goods.

Let us examine these one by one and judge the possibilities and probabilities in each case.

First, the commonly accepted "huge unfilled backlog of demand" will be considered. Five years ago, as a representative of the public, I sat in an off-the-record meeting of manufacturers, business men, and bankers at which the bureaucrats sold the manufacturers the idea that consumer credit regulation would reduce installment purchases and thus create a backlog of demand to cushion the depression, which they anticipated after the end of the European war! I said at that time, and I have said it at every opportunity since, that the idea that an installment sale not made in one year just cumulates for the next year and so on is economic moonshine! In America we buy things not because we have to have them, or for that matter, even need them, but because we **want** them. Installment buying, of all our buying, is the most nearly 100 per cent buying, as the French put it, of temperament—and you can't put temperamental demand on the ice and keep it.

Instead of a backlog of demand consisting of the installment sales, which were not made during the war, it is entirely possible that sales resistance may have been increased. Too many people have found out how long things will wear and give good service! The induced obsolescence appeal of "Buy the new and improved model" will not be as effective as it was before the war because many people have learned the old New England precept of "Make it do; or do without."

Of course, there is a demand for consumer goods, which wore out during the war, but the total is much smaller than is generally thought. These statistics of 12,000,000 automobiles, which are "rambling wrecks," falling apart on our highways, are largely bunk. I have a theory that

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no American car, which is taken care of, ever wears out! My Connecticut neighbor, Jimmy Melton, frequently drives an 1899 Locomobile or a 1903 Ford!

There is also a very strong demand because of population increase, easy money and credit conditions, and favorable business outlook. But, believe me, after this initial rush is over and it will be over much quicker than you think, salesmen will be needed as never before. One of my reasons for this statement is that the public has been oversold on the wondrous new products which are "just around the corner" in American industry. The electronic kitchen sound so much more exciting than one with an electric stove, refrigerator, and dishwasher!

You may say, how about the orders on the books of dealers? Let me answer with two examples. Last Friday, in **New England**, I heard a man asked to make a deposit of \$25 on a firm order for a Gravely Lawn Mower. His answer was, "Why not? I have made deposits on **seven** other makes and I would rather have this one." Or, if you will permit me to be personal, I have orders with **three** different dealers for one new type General Electric combination refrigerator and freezing unit. And, the dealers know that the one who gets his shipment first from the factory gets the sale and the other two get cancellations!

Order pyramiding is rampant all along the line today, just as it was in 1919, in 1922, and in 1923 after World War I. I was in merchandising at that time, and I well remember how we would first place a small order to see what per cent the manufacturer would allot to us and then place our real order on an inflated basis. Thus, if we were allotted 10 per cent on the first order, we would order 10 times what we needed on the real order. Everyone else was doing the same thing until one day a manufacturer shipped the full amount of an order! Then, the telegraph offices and the mails were swamped with cancellations — and that dread disease known as "cancelitis" struck manufacturers from coast to coast!

To summarize, other than nylons, houses, and one or two other exceptions, I do not believe that the American people are going to push down walls to buy goods, even in the next six months. True, business volume will be at a very high level for some time, but it is my honest conviction that this **"five-year backlog of demand"** will prove to be largely an economic mirage, which will take its place alongside some of the other great economic fallacies to which the American people have from time to time so wholeheartedly subscribed.

Let us now take a look at the inflationary pressures generated by the enormous volume of liquid purchasing power, particularly money and bank deposits, in the hands of our people. Admittedly, these have reached fantastic levels.

At the beginning of January 1946, the Federal Reserve banks and commercial banks held \$114,000,000,000, or 41.3 per cent, of the \$276,-

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000,000,000 total of outstanding debt. An additional \$11,000,000,000 was held by the savings banks, giving a total holding for all banks of \$125,000,000,000, or 45.3 per cent, of the total debt. To the extent that these bonds were purchased by the Federal Reserve banks, reserves **and** deposits were created; to the extent that they were purchased by the commercial and savings banks, deposits were created. This method of deficit financing causes an equivalent increase in deposits and money in circulation. To put it another way, this monetization of the public debt has placed in the hands of corporations and individuals an additional \$125,000,000,000 to spend **over and over again** — money which they would not have had otherwise.

To give you just one more statistic, the total of adjusted deposits and currency outside the banks was at the beginning of the year \$176,000,000,000.

The older economists take one look at these swollen totals and promptly break out in a cold sweat. They reason that, since there is not an equivalent increase in the quantity of goods, and since there is a very heavy demand for all kinds of things, inflation is inevitable. Most of these economists will unhesitatingly assure you in private that the die is cast, although they are a little shy about breaking into print on the question as some of them have been predicting inflation since the beginning of the era of chronic budget deficits in 1933.

I am happy to say that I do not agree with them. To assume that a large accumulation of purchasing power will inexorably and inevitably cause wild inflation is to rely on mechanistic and behavioristic principles which are not realistic. Man is neither a machine nor an animal. An American, thanks to our high standard of living, has freedom of choice in respect to spending. This is in sharp contrast to the foreign countries where the great bulk of the purchasing power comes from people who are at the subsistence level, or below it. America is not down to the "bottom of the barrel" on anything. The American can always decide to "sit out the dance," just as he did during the dollar devaluation fiasco of the New Deal. You remember, in 1934, the President announced that prices had to go up because the gold content of the dollar was lowered, but things didn't work out "according to plan."

Certainly this enormously swollen volume of purchasing power is dangerous. In February, in a talk before the Naval War College, I told our future admirals that it could be likened to the tons of high explosive carried in the magazine of a warship. Special precautions and extra safeguards are necessary to live with \$176,000,000,000 of money and deposits, but there is no more necessity of it exploding than there is of the magazine on the ship. We can live with it, if we are careful and take no unnecessary chances.

This passive role of quantity was recognized by Dr. W. Randolph Burgess, who is a financial economist with deep human understanding, as well as president of the American Bankers Association, when he

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said, "Inflation is not a direct product of excess money; it is a product of human behavior. Money does not become wild by itself. It becomes dangerous only when it is used wildly by the people who have it."

It is my considered opinion that the economists, who take a look at the **quantity** of deposits and currency in circulation and immediately conclude that wild inflation cannot be avoided, do not give enough consideration to certain factors which are present in the American situation, but which were not present in any country which has experienced inflation. Recently, in a talk before savings bankers in New York, I summarized these very important American differences, as follows:

1. The high standard of living of our people. Putting purchasing power into the hands of the American people, who are already on a luxury basis by European standards, is quite different from making purchasing available to people who do not have the elemental necessities of life.
2. The wide use of consumer credit even before the war made the man in the street largely independent of the volume of bank credit. He bought when the urge to buy asserted itself — if he had the cash he used it, otherwise he used credit extended by a sales-finance company.
3. Since World War I dumped the gold of the world in our lap, credit expansion in our banking system has never been held back by a shortage of gold. Furthermore, since the inception of the Federal Reserve System in 1913, member banks have been able to borrow reserves and have thus always been able to expand their credit far more than they actually did. Since 1913, it has been the good sense of the bankers and the public which has saved us from inflation. In other words, inflation has been possible since that time, but it has never gotten out of control so far as the **quantity** of money and credit is concerned.
4. Our banks, corporations, and individuals ended the war with the strongest financial position with respect to both credit and capital of those of any country in the world.
5. We also ended the war without direct war damage at home and with productive facilities far beyond the needs of the country, if such a thing can be possible. With half a chance, our industrial machine can produce not only the goods we need, but also an enormous volume for export. We produced for most of the world in wartime; surely, we can produce all we need for ourselves in peacetime! In fact, the huge productive capacity of the country is the best safeguard against inflation.

Now, as to the quantity itself, it is indeed encouraging to note that during the last three months the process of debt monetization has been reversed. The steady increase in deposits and currency in the hands

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of the public, which we have witnessed since June 1938, has at last come to an end and the trend is now downward. **Debt reduction is reducing both bank reserves and bank deposits. Interest rates have stiffened. The Federal budget deficit is much lower than was anticipated six months ago and a balanced budget for 1946-1947 is not only a possibility, it is even a probability, with but a little cooperation from the Congress.** These favorable developments should have a dampening effect on the inflation psychology from which so many speculators and stock market tipsters and their followers suffer.

Now a word as to the contention of many economists that the prevailing low interest rates will have to be raised by the Government to prevent inflation. These economists reason that higher interest rates must be paid to induce individuals to save instead of spend. I do not agree. In these days of corporate savers and institutional savings, the interest rate is not what it used to be in the horse and buggy days. In fact, the effect of an increase in interest rates might be just opposite to what they have in mind. It might even permit more spending!

My views on this are set forth in the January 10th issue of the "Commercial and Financial Chronicle" of New York, to which I refer you for details. Sufficient to say here that the frequently advanced claim that putting up the rates on long-term government bonds to a three per cent basis would reduce inflationary pressure seems unrealistic. After all, the man in the street can now buy savings bonds on a 2.9 per cent basis! I cannot believe that an additional one-tenth of one per cent will stop people from spending. Furthermore, I am not one of those who feels that the country will be ruined by low interest rates!

Before I close, permit me to be the "devil's advocate" for a moment on higher prices. First, the continual comparison of present prices with the depressed bargain prices prevailing in the year just before the war measures the success or failure of the OPA, but it does not give correct economic perspective. A much sounder comparison, from an economic standpoint, is with the more normal, or at least, less artificial, price levels of the mid-twenties when unemployment was not chronic and agriculture was not the object of government solicitude and bounty. Such a comparison, according to Professor Backman, of New York University, in a study for the National Industrial Conference Board, shows that the cost of living index is currently only about 2.8 per cent greater than in 1926. After making allowance for quality deterioration and the disappearance of low cost goods, the level today is not more than five or six per cent higher than in 1926. Likewise, the prices of manufactured goods in 1945 were only two per cent higher and semi-manufactured goods were actually two per cent lower in price. Only agricultural prices, among commodities, were significantly higher, averaging some 30 per cent above their 1926 level. So, other than real estate, where is all of this inflation we are supposed to have already suffered?

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In conclusion, may I say that as a nation we have the economic power to have inflation, if we want it. By the same token, we can avoid it, if we all pull together. There is nothing inherent in the money or credit situation which makes inflation inevitable. The economy of the country is sound. Our productive capacity is larger than ever before. Our managerial know-how and the skill of our labor force is greater than ever before. There is a great demand for goods and our accumulated savings are enormous. From an economic standpoint there is nothing to fear, if we all pull together; in fact, we can be optimistic about the outlook for the future.

True, 1946 will be a year of decision; and the decisions made by the people of American and their representatives in the Congress will determine the future economic and political course of our great country and, to a lesser extent, of the entire world.

But, beyond question, the foundation now exists for a rapid expansion of our economic activity accompanied by increased productivity and a higher standard of living. Prerequisites to a continuation of our economic progress are: **Better planning on the part of business, a drastic modification of the attitude of labor, and careful planning by the government to adjust its own economic activities to the business cycle.**

Finally, our system of private enterprise can and **must** solve its problems. Any other system inevitably leads to the destruction of democratic institutions and the loss of individual liberty.

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By

JAMES G. ROGERS, JR.
Deputy Administrator
Office of Price Administration

I am grateful for the opportunity to appear before your group this evening. I believe completely that study by such groups of the problems which face the country today, both domestic and foreign, will bring far more productive efforts to solve those problems.

One such serious problem and, I believe, the most important on the domestic front, is how to handle most effectively the tremendous inflationary pressures which exist right now. I have been working on that problem for about three years.

Pearl Harbor Day found me in business in New York, where I had always worked . . . with never a dream that I'd spend a day working for the Government. I came to Washington like many other business men "for the duration." Most who did that have long since left, and I only hope that my turn will come soon.

But while I look forward to the day when I shall leave, I'd be less than frank, if I didn't state at once that I've had a great experience, which I know will live with me the rest of my life.

During my term at OPA, I've had the opportunity to observe the central forces in our economic system. I've spent a great deal of time in studying facts and figures which indicate the state of our country's economic affairs. In addition, I have been at a vantage point to see the **strong human forces** which are as much a part of the economic system as are the tables of facts and figures. I've visited with **labor leaders** and their representatives. I've hashed over tough problems with **farm groups** and their representatives. I have listened to the case put up by **consumer groups** time after time. And I've had meetings with literally hundreds of business men, most of whom have been **more than fair** in their approach to the difficult problems in which OPA is involved, but some of whom I have found **completely unreasonable**.

It is perhaps worth reminding you that OPA cannot put out an order which is satisfactory to all these groups. If it's a step in the right direction for industry or farmer, it's often a step in the wrong direction for labor and the consumer.

It's perhaps worth reminding you also that congressmen have a very great interest in ceiling prices set for their constituents. I'd estimate that the average member of Congress has about **7,500** business establishments in his district and **13,000** farms. Of course, a member from a rural area will have fewer business establishments and a great many more farms. A member from an urban area may have no farms at all, but three or four times as many business establishments.

But whether letters come from farmers or business men, if one-half of one per cent of the number has a problem with a price during

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any one month and writes his congressman, that congressman receives over 100 letters on OPA affairs in just 30 days, and usually both senators from that State will receive word of the problem, too. From that, you will recognize that last week's 1,000 letters to OPA from Congress are not at all unusual.

Out of all that experience, I have developed some very **strong convictions** on the economic problems which face us today.

To come more promptly to my central theme, I'm going to omit the many, many series of figures which can be used to support some aspects of the case. All of us know, without such figures, that supplies of many commodities are very short of demand. We know that purchasing power continues to run **very, very high**, and that thus inflationary pressures are as great or greater than ever before. Today not only are average incomes running high, but, in addition, there are tremendous amounts of liquid assets available, accumulated during the war for postwar spending. There is more hot money around than ever in the country's history. The figures run far higher than in 1919, when the postwar increase in prices got under way.

Here again we need no figures to prove the point. Perhaps the most dramatic picture of that purchasing power can be seen in any good-sized department store these days, which is handling, on the average, more customers, generally with larger purchases, than even during the peak of the war a year ago, when spendable income was running a few billion dollars above even the present level. Retail sales are running some 20 per cent ahead of a year ago, and are actually more than double the levels of 1939, reflecting not only these very high incomes, but also the use of savings to satisfy demand pent up for the last four years.

Without developing any further the economic facts which create such a serious situation, let me turn to some other facts, which are **human attitudes**, but which are, nevertheless, just as important to the problem we are considering. These are facts about the attitudes of the various groups in our society. What the farmer thinks and will do under certain circumstances is vitally important to the problem. The same applies to the working man, the business man, and the consumer.

The farmer today looks back over a period of pre-war years, running all the way to 1920. His experience makes him feel that his real opportunity for profit comes in a period of high prices, which may last for two or three years, but which will then disappear promptly, usually, it seems to him, without any warning whatsoever. He knows that before, when prices have dropped, they have dropped 40, 50, 60, and 70 per cent. For example, in the slump following the last war, hog prices dropped **57 per cent**, wheat prices, **64 per cent**, and corn and cotton both by **75 per cent** or more. Generally these periods find him with stocks on hand, and with little opportunity to change to other commodities or move to another area. He has to sweat it out on the farm, isn't free to move about, and usually can't change crops with ease.

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It is natural then that he wants to do well in this period when his products are in great demand. During the last year, our farmer has seen increases in rates for labor. He perhaps doesn't recognize that the working man lives on the total pay he takes home, rather than on wage rates. He perhaps doesn't recognize that, with the adjustments in wage rates, the take-home pay of labor will probably still be somewhat below what it was in 1945, and not 15 or 20 per cent higher. Furthermore, I am talking here about the average worker. There are hundreds of thousands who are learning today to live on jobs that will continue to pay far less than did the jobs they had in the aircraft plants and the shipyards. Under these circumstances, the worker will be very sensitive about any sharp increases in the prices he has to pay.

As most of you here tonight know, ceiling prices on farm commodities are geared to the parity prices of those commodities. Parity, of course, is a ratio calculated by the Department of Agriculture that shows, with respect to any farm commodity, whether its price has risen as much as have the prices which farmers pay for the things they buy. Under terms of the Statutes, OPA cannot set a ceiling price which holds the farm price of any commodity below its full parity price; that is, a price as far above the base level as are the prices which farmers pay. Now a bill to change the basis for calculating parity prices has already passed the House twice. In substantially the same form, it has passed the Senate as a rider to the 65-cent minimum wage bill. From that, it seems clear that the situation is such that it would take very little to put the bill through. The consequence would be an increase in parity of about one-third, resulting promptly in price increases of 20 per cent at the farm, and 15 per cent at the local market for food.

If such large and immediate food price increases become necessary, there would be little justification for requesting Congress to renew legislation authorizing subsidies to hold food prices in line. Subsidies are proper, in order to help maintain the present balance and stability in the economy. They are not justified on food, for example, if food prices are to increase so sharply anyway.

The removal of subsidies would increase food prices another eight per cent, making a total from these two sources alone of around 25 per cent.

In these circumstances, what would the attitude of labor be? After many difficult controversies with management, labor has received increases. To their way of thinking, these increases were only just to offset, to some extent, the sharp drop in take-home pay as a result of the reduction of overtime. They do not consider it an increase in total income. In a large majority of cases, it is not.

Since the average income of labor is to be no higher than 1945, and perhaps somewhat lower, it is hard for labor to see any justification for higher prices and profits for other groups. This is particularly true when, as a result of such higher prices, the value of labor's income

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dollar is reduced. Most important of all to the workingman is an increase in the prices of food.

Again I say, what will labor's position be, if food prices go up by 25 per cent? Isn't it likely that they would make every effort to get further increases as soon as possible? I think it is.

Consider those attitudes, add the prospect of a 25 per cent increase in food prices, and a softening of policy all along the line and you'll bring forth action on the part of farmers and labor at once.

Meanwhile, what would be the point of view of the **business** man? If he feels that the Government is to let up its policy to maintain prices, wouldn't it be entirely natural for the business man to make a much greater effort to change his dollars for goods? Most immediate would be the effect of orders double and triple their present size. It would be an easy matter to touch off an inventory boom with the purchasing agent left holding the bag. Thus the demand, already too large in the light of supply, could easily double and triple in many lines vital to business with many withholding goods from the current market. It would be the most direct means of greatly increasing inflationary pressures already dangerous.

The difficulties for the business man during the early stages of a period of sharply rising prices would be only a small part of the ultimate result. The boom would be followed not too long afterward with a bust, with tremendous inventory losses, as followed the last war, and a perfect situation for a long, drawn-out depression in which business, as we know it today, would very likely not survive.

Let me emphasize that I've attempted here to paint the picture which would quickly be drawn only as the result of **one major change in policy** . . . namely, the passage of legislation which would provide for a new method of computing parity. This is clearly a theoretical concept, because, if such a change were made in parity, a great many other increases would immediately be required. The impact on the program would obviously be far broader than simply an increase in food prices.

As a practical matter, it seems clear to me that, even as a result of this one action, price increases would spread so rapidly that we could expect a price level at least 50 per cent higher by this time next year.

Now I recognize, of course, that one like myself, who has been so close to the center of the tremendous forces at work today in the economic field, may over-dramatize the situation. I recognize that there is considerable criticism of the stabilization policies of the Government on the basis that, whenever any change is suggested, Government officials cry out that the program cannot stand a change. That only goes to show, critics say, that the Government is rigid and not willing to consider even such changes as might improve the program.

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Quite naturally, our case would perhaps be better understood if we could compromise enthusiastically here and there with changes which would bring price increases five or ten per cent higher than they are today. Wouldn't the country be much better off, you might argue, and indeed, wouldn't OPA be much better off with far fewer pressures and headaches, if there were increases of five or ten per cent, which certainly would not mean inflation?

That is a point of view which has often been expressed, and which in **certain** circumstances might be perfectly feasible.

The trouble with it is that it fails to recognize, first, the human attitudes which are involved, and second, the fact that we are already so close to the breaking point in the economic balance which exists today. It may be that price increases have already gone so far that it will be impossible to stave off major increases for farm groups, to be followed promptly by demands from labor to make up for serious increases in their cost of living.

Let me make it clear that, in my opinion, at least, there is no such thing as an increase of, say, 10 per cent in the cost of living in the next year. Any change in policy which would bring increases of that size would certainly tip over so many other price increases that we would have to give up any idea of balancing off at all. We would be in for increases leaping up to levels many times that 10 per cent, before the whole thing crashed and we found prices tobogganing just as they did in 1920 and 1921, with business profits turning to losses and with unemployment rapidly rising.

That is why it seems so clear to me that the situation now can only be described as explosive. I can assure you that, if you had the chance to discuss this subject as thoroughly as I have with representatives of business, labor, and farmer, you would not disagree one little bit with my interpretation or with my conclusions.

Against that background, let me comment briefly on some of the amendments to the OPA legislation passed by the House last week to explain why it is that they seem so very dangerous.

There are included two amendments, either one of which by itself would be enough to torpedo the stabilization effort. The first is a decontrol amendment which would sweep away price controls at once from a host of vitally-important cost-of-living commodities. Among these commodities are meats, milk, and nearly all dairy products, coal, shoes, wool and rayon textiles, and women's and children's garments made from wool and rayon. Altogether, this amendment would require the removal of ceilings on commodities making up at least half the cost-of-living index.

In addition, it would require the lifting of ceilings on most farm products. It would also mean the removal of controls on the majority of basic industrial products in such fields as metals, textiles, leather, rubber, chemicals, coke, stone, and glass.

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Another blockbuster included in the bill is the cost-plus-profit amendment which would require OPA ceilings to cover the current cost of production and distribution, plus a "reasonable" profit for every product sold by every producing industry and wholesale and retail trade.

Let me give you three of the many reasons why this amendment by itself would wreck price control: (1) It would blow sky-high the ceilings on automobiles, refrigerators, radios, and most household appliances, many of whose producers are at levels far under capacity, and who thus have high cost for their output. (2) It would start a spiral of needless price and cost increases by compelling OPA to boost ceilings for the vast number of low profit items which, along with high profit items, prosperous industries and trades have always made and sold. (3) With no product-by-product cost and profit figures available for 85 per cent of American business firms, OPA could not possibly carry out the countless cost accounting studies necessary to apply this amendment. It is not an exaggeration to say that it is an administrative monstrosity and completely impractical.

There are other amendments which by themselves might not torpedo the price control program as a whole. If you can tell me how close we are to touching off the explosion, I could tell you whether or not any one of these amendments would do the trick. It is clear, however, that the effect of any one would be very serious and would further aggravate an already very dangerous situation. Probably any two of them would tip the balance.

The first of these deals with a plan to liquidate subsidies on a rigid schedule calling for a 25 per cent cut every 45 days, starting July 1, coupled with corresponding increases in price ceilings. Its adoption would destroy all hope of working out an orderly program to minimize the shock of subsidy termination and ceiling price increases both to agricultural markets and the cost of living. Further, of course, such a plan would allow no way of preventing scandalous windfall profits to speculators.

More drastic than that subsidy proposal is another amendment calling for immediate removal of subsidies on meat products. The price increases resulting from such removal would be drastic on an item very important in the cost of food to the average family. In addition, this amendment would destroy the only effective method which OPA can use to control the prices of live animals. Without livestock price control, meat price controls could not long survive.

By voting to do away with the Maximum Average Price Plan, the House stripped from the consumer his only effective protection against the shift in clothing production from low-priced to high-priced lines of apparel. Controls to prevent this have never been strong, as we can see so readily in any store where higher priced merchandise is

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in far better supply than the standard items. With this amendment, that situation would change immediately for the worse. Clothing prices, already high, would again shoot up.

Again, the elimination of cost absorption in the distribution and retailing of reconversion products, would cost the consumer nearly half a billion dollars a year on automobile prices alone, not to mention the bill for washing machines, radios, and other reconversion products. It is worth noting in passing that the increased prices resulting from this amendment for tractors and farm equipment would be of tremendous significance on the farm. The prices of tractors and farm equipment are included in the parity index and, as they move up, so, too, will the parity level, thus again forcing agricultural prices higher. But more important, the need for replacing farm equipment is today so much greater than normal, that any sharp rise of prices would, it seems to me, certainly needle farmers into getting a change in the parity calculation that would put them in better position to pay the higher prices. Frankly, I don't know whether this factor by itself would be enough to force a new scheme that would require sharp increases in food prices. But then we put together all the reconversion products the farmer has been waiting so long to buy, add an item of five or ten or perhaps even 15 per cent to prices already a good bit higher than he planned to pay, and his case certainly builds up into one that calls for serious consideration. If there were a strong case based on extreme hardship for the distributors and dealers involved, it would present one more very tough decision in connection with stabilization policy. But there is no such case. Thus I can see no reason for jeopardizing the interests of the public. I, for one, do not want to be responsible for touching a match to the explosive situation with price increases like that right at this time.

All in all, I have confidence that the final bill will not include amendments which either individually or in sum will torpedo the stabilization program.

Congress does not intend to bring inflation on the country. The large majority wants price control extended. They recognize what the inflationary forces are and, I believe, will come forth with a bill which will give authority to the stabilization agencies to prevent the kind of explosion which is bound to ensue without effective controls.

If I've painted the picture correctly as to the prospects for our economy if effective controls are not continued, then the question is, how can we before too long relieve the huge pressures which exist today and come out of the period with a sound base for the years ahead? Can that be done? I believe it can be, and I'll tell you why.

With proper authority, I believe OPA can move ahead in the coming year with policies which will build a base for the brightest prospects ever for farmer, for workingman, and for businessman.

With the proper authority from Congress, I believe OPA should

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maintain its present standards substantially as they now exist.

If you have been told that these standards are rigid, that they provide no opportunity for increases in order to aid production, that they squeeze a large number of industries or individuals out of business, you don't have a clear picture of what OPA's policies really are.

I don't want to burden you with rather complicated price standards. Rather let me give you some indications. During the eight months between V-E Day and February 1, for example, OPA gave 192 industry-wide increases in order to aid production, 170 to meet minimum requirements of law, and 85 to correct inequities. In addition, let me emphasize that those are industry-wide actions. There were some 15,000 adjustments for individual firms during the same period, which figure would be close to 20,000 as of today.

Further, by far the great majority of our regulations include provisions for individual adjustments.

In addition to taking care of particular cases of very high cost producers, or some other who, in spite of our best efforts at developing proper regulations, are inadvertently seriously squeezed, there is a general order, cutting across practically every regulation, which allows adjustments to cover at least total costs. This means that even the most inefficient manufacturer gets a guarantee, insofar as OPA can give it, that he will get a price to cover total costs.

Actually, there are at least ten ways in which OPA standards set floors under the earnings of American business to protect it from being squeezed between ceiling prices and rising costs. Let me tell you what they are.

Floors for Industries and Trades

1. Every industry not operating at low volume must have ceiling prices enabling it to average at least its base period rate of earnings on its present net worth.
2. Every such industry which in the base period had earnings at a depressed level must have ceiling prices enabling it to average a higher rate of earnings than it averaged in the base period.
3. Every industry operating at low volume must have ceiling prices which, when output reaches a good volume, will enable it to average at least its base period earnings.
4. Every industry making more than one product must have ceiling prices on each product which will enable it to cover its average total cost of making and selling that product.
5. Any industry making an essential product in short supply because of present ceilings must be granted increases in those ceilings to the extent needed to bring out the essential supply.
6. Every distributive trade must have ceiling prices providing protection similar to that afforded producers.

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Floors for Individual Sellers

7. Most individual manufacturers of essential or low-end commodities in short supply can obtain adjustments in ceilings whenever needed to enable them to realize profits on those commodities.
8. Every manufacturer, except in a limited number of fields, can obtain price adjustments sufficient at normal volume to eliminate losses caused by his present ceilings.
9. Individual producers of commodities not produced in volume during the war can obtain adjustments in ceilings which will be sufficient to enable them to realize profits on those commodities when their output reaches good volume.
10. Individual distributors of many commodities are protected against having to absorb increases in their suppliers' prices in any case where this would reduce their margin on the commodity below their cost of doing business on the commodity.

When we combine these ten points to show what OPA has done to eliminate hardship with the fact that estimates for industry earnings after taxes this year run very close to those of 1945, and double 1940 figures, I sincerely cannot feel that industry as a whole has any claim to hardship or lack of incentive to produce.

It could be argued, of course, that even in spite of all that, OPA standards are too tight. Wouldn't a change to a slightly higher level make sure that price control would not stand in the way of production?

That might be a good thing to do, if there were a good fighting chance of making such a change and holding the increases to their direct effect. Again I say we are very, very close to tipping over the delicate balance which exists today.

Certainly such a move would be a call to arms for the farmer and for labor. Business men would immediately take in the fact that prices were no longer to be stabilized and that higher prices were the order of the day. Demands for increases from all three groups would be immediately forthcoming. Just how they could be contained, I do not know. Just how the government could prevent one set of increases feeding on another is beyond me.

In the coming year and with the continuation of our authority from Congress without crippling amendments, OPA should also continue the development of its policy and procedures, so as to give industry more prompt and expeditious service. Great strides have been made along these lines in the last six months. While each of us involved in the administration of the program would like to see better results, the amount of time required to handle industry-wide actions and individual adjustments has been greatly speeded up. If any of you are involved in any such action, may I urge you to serve your industry by helping to get facts and figures to OPA as promptly as

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possible. I think it is obvious to everyone that pricing cannot be done without such facts on the particular industry involved.

OPA must also, I believe, show its good faith in removing controls when it appears that the balance between supply and demand for any commodity is such that controls can be removed without price increases, and further that for those items which are insignificant in the cost of living or in business costs, controls also be removed promptly.

Very important actions have been taken recently, based upon our decontrol policy. Two weeks ago, a major action was taken in the capital goods field. This removed ceilings for about 30 per cent of the items in this category under control during the war.

In addition, and at about the same time, a major action was taken to remove from control a lot of insignificant items in the consumer durable goods field. A great many other actions of less importance have been taken and are being taken each week, as the economic facts with respect to a particular commodity warrant.

I believe those are the things which are most important for the agency to do. If the program is wisely administered during the period, I think the country's problems in the economic field can be well on the road to solution a year from today. Indeed, I should say that, if that is done, there will be the brightest prospects ever dreamed of in the country for profit for business and for farmer, and income for labor, with a wealth of production to satisfy the pent-up demand of the consumer. Goods should come forth at prices, which, while somewhat higher than pre-war, will certainly be within reason. Even more important, they will be prices that can be sustained for a long time to come; they won't hit the toboggan as soon as present backlogs of demand are worked off.

If we continue the controls in the manner I have suggested, it is likely that business profits for the year 1946 will be very close to those of the peak of the war period, with opportunities even greater for 1947. It is likely that labor income will be very close to the figures of 1945. Farm income also should continue high . . . probably somewhat higher than even the best of the war period.

The problem which we face today, of course, will not be solved, in spite of the very bright prospects for each of the major groups in the economy, unless production is forthcoming. Every sign we can see would indicate that production increases are coming very fast indeed. It is possible, of course, that there will be another setback through the prolongation of the coal strike.

But should it be solved promptly, production will go on up breaking records month by month. In this connection, it is worth noting, that 53 million people are employed . . . more than ever were employed before the war. It is apparent, I think, that business men do not employ people, unless they are engaged in production. The pro-

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duction figures for March show a sharp upswing that has brought us nearly 70 per cent above the pre-war level of industrial production. During the first quarter, our total national output ran above 180 billion dollars a year, less than 10 per cent off from the wartime levels of 1944 and 1945. Even when you take account of the modest price increases that this figure includes, it is plain that we have snapped back fast from the reconversion low. It is interesting to note that even in some industries which required major reconversion, production is larger than for any pre-war month. A notable example is the radio industry.

Enthusiastic reports on production increases do not come from Government alone. They come from business groups like the C. E. D. They come from top Washington newsletters serving business and informed about business. They come from actual production figures as given by business itself.

Production is the real answer to the inflationary pressures surging to force prices upwards today. Production today is huge. Industrial capacity is enormous. Industrial know-how is proven, to the amazement of people the world around. But production at the moment is not large enough to satisfy demand which is double pre-war figures, and I must say I do not see how we can expect it to be eight short months after a war which required for this country alone some ten times the expenditure of World War I.

Until production catches up with that tremendous demand, I believe controls must be maintained. For that long . . . and no longer. Only by such temporary continuation can be Government, in my opinion, carry out its responsibility to the people to take every step necessary to prevent the ravages of inflation.

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DISCUSSION

Question: I understood you to say that there was an OPA over-all provision which permitted production at not less than cost. Is that a provision or is that an understand, or just what is it?

Mr. James G. Rogers, Jr.: There is a general order (S. O. 133) which applies, I would say, to 95 or 97 per cent of all our orders for all products, which allows the individual manufacturer to receive a price which will bring him total costs.

Question: Does S. O. 133 refer to the individual items in your line of production, does it refer to your overall profit position?

Mr. James G. Rogers, Jr.: It refers to the overall.

Question: What are the chances of the property owners getting relief from restrictions on rental rates?

Mr. James G. Rogers, Jr.: OPA rent operations, as I think you know, are not handled on a national basis. They are handled area by area. As I explained in my remarks, the situation is such today, with balance in such a vicarious position, that the likelihood of increase in rents in any particular area—unless it is a matter of hardship for the landlords in the area, as revealed by studies which we are making in these areas—is nil.

Same Gentleman: Is the same true in the case where rents were frozen at the lowest depression levels and in spite of the fact that the pleas of the property owners to the rent control people are disregarded?

Mr. James G. Rogers, Jr.: As I said, the studies are going on all the time, and have been since the beginning of rent control, and will continue. If you feel that your area is in need of relief, I would suggest that you get together with some other landlords and make a request to the area rent office and try to prevail on them to make a preliminary study in your area. I should guess that they probably have the figures; I do not happen to know. They have some figures which would give a general indication of whether there is hardship in this area, under rent control.

Question: I should like to ask Dr. Schmidt if he thinks that the so-called elastic currency that we are supposed to have by the creation of Federal Reserve Systems is wholly inadequate for meeting the situation with respect to money and bonds?

Dr. Schmidt: I indicated in my main remarks that I thought that American business, in spite of the large reserves, would be in the market for very considerable additional credit within the next three or four years. I have seen a figure in Washington of seven or eight billion dollars worth of credit in the next few years, and that would be

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added, presumably, to the figures already indicated, and the Federal Reserve System has essentially lost control, due to the fact that the Treasury now is the primary monetary authority. That occurred during the war.

Mr. James G. Rogers, Jr.: I asked the chairman for permission to ask Dr. Schmidt a question which I think might bring out at least one difference in our points of view, which might be of interest to you.

It seems to me that, as his case was ably presented, he made it very clear—as I tried to do also—that there is a sharp difference between supply and demand today, which is the root of the whole problem. I get the impression from him that it will take some time for supply, with or without OPA, to come up to that demand. It would seem, therefore, that the only other solution to the problem would be, in some way, to cut demand. I think that it would be helpful if he would comment on how that could be done.

Dr. Schmidt: If there is anything valid at all in my remarks, my feeling is that production alone will not solve the inflationary problem, because we have a monetary situation, a situation of liquid assets, of purchasing power, that is all out of balance with anything that we can produce in terms of normal past production. Normally we have one dollar of money for each two or three dollars of national income. And today we have a 200 to 300 per cent increase of money and therefore, even if every working man in the country worked, if every plant was operating, at full capacity—and as I pointed out, if our labor force is virtually fully occupied—in spite of this full employment, the inflationary pressure are expanding.

I think that these enormous liquid assets will work their way into the price and cost structure, and if our labor force is fully occupied, how are we going to increase production? If you can get greater capacity, where are you going to get the labor force? I think that Mr. Bowles has done a great disservice to the country by saying that the only answer to inflation is production. It is only one answer. .

In Germany, they had full employment and full production during the early twenties, up to 1923, while at the same time they had wild inflation. It is the monetary system that is out of balance, and coming directly to what Mr. Rogers asked me to comment upon, the only way that I can see to decrease demand, is by encouraging greater savings. That is why I suggested that there must be a reconstruction of our entire debt structure, so that the American people will be willing to buy and to hold government bonds in much greater quantity than they now do, because virtually the only way in which we can decrease this 27 billion dollars which is rattling around in people's pockets, as pocket money, and an additional 80 billion dollars of deposits—is by the retirement of the Federal debt. That would be the one marked way to do it, to encourage savings by the people.

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Mr. Raymond Rodgers: I disagree with Dr. Schmidt. In my understanding of the facts with respect to Germany, they do not bear out what Dr. Schmidt said. I may be wrong, but my understanding was that there was the deliberate printing of money in Germany in the period to which he refers. They could not sell their bonds. They knew that they could sell their money abroad and they sold it, some of it to us, and some throughout the world; it was a deliberate matter.

With respect to working and producing during this period, Germany converted for war and they never fully reconverted. Millions of men were killed and injured during the war and German industry never returned to production of any great consequence, although toward the end of the inflation they began to dump goods throughout the world.

Furthermore, I cannot agree that anything in Europe is comparable with anything in the United States, particularly where they inflate their currency to raise foreign purchasing power, which is exactly what the Germans did.

To go back to his statement about the quantity of money: we have in the field of money, the quantity man and the psychologist. The Doctor keeps talking about the "quantity of money." That brings to mind pump-priming and a lot of other New Deal fallacies. The plain fact is, if you want to go back to 1929—we had a turnover there of 72 times a year on demand deposits. We do not know how much pocket money turned over, but it did not amount to too much. We had banked 24 billion dollars and we had pocket money of $4\frac{7}{10}$ billion dollars. You multiply that by the turnover and you get the total purchasing power.

At the present moment, the quantity is much greater, but our turnover is down around nineteen or twenty. It is the turnover that is the important thing, and that is the thing that the man in the street controls. The government can increase the quantity of money, but they cannot cause people to reach for their checkbooks any faster unless the public wants to do it.

Question: There is one matter on which none of you have touched, which may have some bearing on this question, the fact that the production, since the first of this year, has had no connection with the distribution of consumer goods. Bulging warehouses all over the country testify to the fact that everybody is waiting for relief from OPA. They are all holding goods to be released at some future time. Now, if price relief had been given two or three months ago, those goods would have been out on the market and this production would have meant something. As it stands today, the production that we have had, this huge increase of production, does not mean a thing.

The production figures may be all right, but as for the distribution, I am certain there is something wrong, because the inventories in the country have increased to two or three hundred per cent of what they were at the beginning of the year.

INFLATIONARY PRESSURES IN THE POSTWAR PERIOD

Mr. James G. Rogers, Jr.: Inventories have certainly gone up. A lot of manufacturers are producing a lot of things that they were not producing in December. I do not think that it is a proper statement to say that all over warehouses are full of goods which are held off the market. I do not believe that the larger percentage or any substantial percentage of business men are sitting there with their warehouses full of goods, waiting for OPA to raise prices. There are some cases of it, particularly in the apparel field, men's shirts, and sheets, and one or two others, but I certainly would not say that that was so generally. It is possible that if price control legislation wobbles along and nothing is settled until June 29, it will become serious. I certainly hope not. I think that business will not be serving itself or the public, if it does that.

There is one other comment that I should like to make, with respect to Dr. Schmidt's statement about production. It seems very clear to me that production will go up. There are more people who are still to come into the labor force. Some will say that there we would have full employment at 55½ million, 56½ million, some a few higher than that. In addition, production lines in a great many cases are ironing out kinks and today are producing at rates very much lower than they will ultimately produce. Further than that, there will be increased productivity because of this thing called "know-how," which is very difficult to translate into statistics but which we in this country have a good deal of. I do not like to be so pessimistic as to say that production will not increase very substantially. I think that it will in the next six months, eight, or ten months. I think that we shall see a tremendous outpouring of goods.

Company and Union Responsibilities and Liabilities Under The Labor Agreement

SAMUEL MARSH
KENNETH A. McINTYRE
J. C. ARGETSINGER

OPENING REMARKS

By

J. C. ARGETSINGER

Vice President and General Counsel
Youngstown Sheet and Tube Company

The subject for today's discussion is "Company and Union Responsibilities and Liabilities Under the Labor Agreement." Just why there should be any distinction between such an agreement and an agreement between the company and the customer, or an agreement between the company and the union about a lease of a hall, or about any other matter, is beyond my simple mind. And yet, that really is a very superficial view of an important problem. All the relationships between employer and employee, family, community, national rights and obligations are concerned.

I am glad we have the opportunity to hear these extremely important problems of human and business relationships discussed by two experts. No one should venture far out into this area unless by experience, training and ability, he is able to find his way around without falling in. It is no place for amateurs.

Our speakers this afternoon are well fitted by experience, skill, and intimate conduct with these problems to outline them for us. I am grateful for the chance to hear them. The first speaker will be Mr. Samuel Marsh, attorney-at-law in Kansas City, Missouri, who has a broad experience in labor and personnel work. Today, Mr. Marsh is practicing law as a specialist in the highly technical and controversial fields of administrative law and taxation.

The second speaker, Mr. Kenneth A. McIntyre, is senior partner of Kenneth A. McIntyre Associates, a Cleveland and New York firm of consultants in Industrial Relations. He has served for five years as president and chairman of the Labor Committee of the Toronto Electrical Contractors Association and also as a member of the Executive Committee and chairman of the Cost Data Committee of the National Electrical Contractors Association, and as a member of the Joint Council on Industrial Relations in the Electrical Construction Industry, United States and Canada, which has pioneered for many years in its endeavors to bring about a strike-less industry.

ADDRESS

By

SAMUEL MARSH

Attorney-at-Law

The large increase in union membership in American industry during the past two decades, carrying with it the organization of labor in practically every major type of business, having to do with the production, distribution, and sale of the basic commodities of life, makes clear the vital role that collective bargaining plays in the field of labor relations. Counting unorganized employees who have also achieved collective bargaining rights, it has been estimated that collective bargaining agreements cover roughly eleven or twelve million, or more than a quarter of the forty million wage and salary workers actually employed.¹ Considerations of the legal aspects of collective bargaining agreements, therefore, are not entirely out of order on any labor relations program.

During the war period the normal effects of the increasing importance of the collective bargaining agreement were delayed, due to functioning of the War Labor Board and the pledges of both management and labor to maintain industrial peace to promote greater production of the implements of war. Now that those controls have been removed to a large extent we find ourselves back in a period of true collective bargaining with full interplay of management and labor as interdependent bargaining units. The collective bargaining agreement, therefore, takes on a new significance. To it must be given a great deal more attention than at any time in our history.

Having just witnessed in the past eight months a series of strikes that have proved exceedingly costly to management, labor, and the public at large, we find ourselves asking the question, "What are the legal implications of the collective bargaining agreement?" In other words, is it, in fact, a contract, and if so what rights does it guarantee to each side, and how can its terms be enforced to prevent or redress a breach by either party? What is the need for greater liability on the part of the contracting parties, and what are the limitations to that greater liability?

Three forces have interplayed in the development of labor relations law. These forces are employers, employees, and society as a whole. Employers and employees are mutually interdependent in a democratic capitalistic state, and while they each comprise a considerable part of society they often have very divergent interests. At times during the history of our nation the cause of the employer seems

1—"How Collective Bargaining Works," The Twentieth Century Fund, p. 13 (1942).

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to have been more favored by the courts and by other law-making bodies, and at other times the trend has been more in favor of the employee. And at all times, may I say, the public interest, as such, has been given too little attention. During the decade prior to October 1929, the employer appeared to have the better end of the bargain, but during the decade following October 1929, with the rapid increase in unemployment for several years, the needs of the wage earner gained increased recognition. The decade of the thirties is particularly noteworthy because of the successful pressure brought to bear upon law-making bodies and employers by labor, resulting in such pro-labor legislation as the Norris-LaGuardia Act, the Fair Labor Standards Act, the National Labor Relations Act, and others. The pendulum swings back and forth, its movements being prompted to a large extent by the prevalent economic conditions facing the country.

In the belief that most of you who are attending this conference are business men, devoting only a very small part of your time to matters of a purely legal nature, a bit of historical background will probably aid you in understanding some of the difficulties in the development of a fully satisfactory system of labor relations law in this country. Such terms as common law, equity law, statutory law, and administrative law may come to you with more force if they are clearly distinguished for you at the outset.

The English common law is that system of law that developed from custom. The judges in the earliest times had no better yardstick for administering justice than the custom of the people, and they, in the very beginning, adopted the view that such conduct as was customary was just, but that where conduct departed from the approved practice of the clan it was unjust. Therefore, the customary practices known to the judges was the first source of law. Following this system the courts gradually built up a series of precedents which had been followed in England up to the time America gained her independence, and which became the foundation of our common law system in this country.

Equity is another legal term which you commonly hear. Some of you, however, may have come to accept the more common meaning of the word, that which is equitable and fair, and you may not be fully cognizant of the fact that to lawyers it defines a separate and distinct legal system that finally developed in England as a corollary or counterpart of the common law system. There came a time in the development of the common law when the procedural rules were so rigid and fixed that the lawyers could not find a writ to fit certain

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special cases for which there were no precedents. The king, therefore, wanting to do justice to all his subjects, designated the chancellor to hear these special cases in a more informal manner. At first he had no rule to guide him except his conscience, and so, there was heard the expression that "the rules of equity varied with the length of the chancellor's foot." In time, however, the chancery came to have its own rules and to establish precedents which it followed in much the same manner as the common law courts did.

America also absorbed this latter system of law, and for a time, like in England, had separate courts to hear the two types of litigation. In later years this feature was overcome by having the same courts hear the two types of cases, but the application of the separate rules still prevails in our legal system.

Then, there is that body of law known as statutory law, or legislation, which also had its origin at a very early date, and with which you have come to be quite familiar, because you hardly read your newspaper without seeing that Congress or your State Legislature has put additional laws on the statute books to guide your conduct. Statutory law had its origin in emergencies that were occasionally created by situations that arose which called for new law because the courts had no precedents to follow, and the judges lacked an adventurous spirit. Some of our courts today have become much more courageous and venturesome, but, even so, we have developed in this country a very large body of statutory law -- a testimonial to the progress we have made as a nation.

Labor law, as we have come to know it in this country, has had its origin in all of the three branches of law as I have defined them and also in that more recently developed body of law known as administrative law which has to do with the decisions, rulings, and orders of various government bureaus, such as the Railway Labor Board, National Labor Relations Board, National War Labor Board, and others.

The collective bargaining agreement is not in itself an entirely new institution, but it was used only to a very limited extent prior to the past three or four decades, and only during the last quarter of a century has it proved particularly troublesome to the courts and legislative bodies. One of the chief difficulties has been to reconcile this type of an agreement with the early established principles governing common law contracts, and it is largely in terms of contract that these agreements reach the courts. First of all, then, let us look at some of

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the common law aspects of the question. What are the necessary elements to a good contract?

A contract is defined as an agreement, oral or written, between two or more competent parties, for a valuable consideration to perform, or to forbear from performing, a certain thing or things affecting their legal relations. It can readily be seen, therefore, that the collective bargaining agreement possesses most of the elements necessary to make it a valid enforceable contract. There is usually an agreement, a meeting of the minds, as we more specifically term it in law. This agreement is usually reduced to writing in present day collective bargaining, which makes it more easily provable before a judicial or administrative tribunal. The consideration which passes between the parties is a valuable one. Each party agrees to do certain things, and to forbear from doing others, and the promises are mutual. One is given in return for the other, and certainly the things that each party gives up in favor of the other can be said to affect their legal relations.

The question, however, that originally gave the courts trouble in the enforcement of these agreements under common law principles was as to the competency of the parties. Usually they encountered no difficulty in finding that the employer was a competent party. In most cases the employer was a corporation, and the corporation if legally constituted has by statutory law been given the status of a separate legal entity, suable in the courts. If, therefore, the agreement has been signed by properly authorized officers, and the contract is one which the corporation has the power to make, the corporation is a competent party.

As to the competency of the labor union we have a slightly different question. The present common law concerning the legal suability of labor unions had its origin in the English law regarding the status of unincorporated associations of men.² Most labor organizations are unincorporated associations, and as such cannot sue or be sued in the association name so that suit must be instituted in the names of the various union members. But while there has been much difficulty under the common law principles as to the enforcement of rights against an unincorporated association the courts have found it much less difficult to uphold such agreements in favor of aggrieved individual members of unions and against their employers. There were some early rulings to the effect that the individual employee could not obtain relief in case of a breach of the collective bargaining agreement, but there have been many later decisions holding the employer liable

2—Barnes & Co., v. Berry, 169 Fed. 225 (C.C.A. 6th, 1909).

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in favor of the individual worker. The early confusion of the courts appears to have been due to their belief that there was a lack of mutuality in such contracts and there was reason for that view due to another peculiar feature of the collective bargaining agreement. In most ordinary contracts there are but two parties. In agreements of this kind there are three, the employer, the union, and the individual employee. Today under the most prevalent view the union is regarded as the bargaining agency, but the rights secured by the agreement are, in fact, the rights of the various individuals represented by the union.

There are at least three different theories that have been adopted by the courts under which collective bargaining agreements have been held valid.³ Under either of the three theories the rights of the individual have been held to be contract rights,⁴ and to accrue even to the non-union employee as well as to the union member.⁵

One of these theories is known as the custom or usage theory.⁶ This was the earliest theory adopted by the courts. Under this doctrine it is considered that the union agreement creates a custom or law of the industry, that no contract, in fact, has been formed between the employer and the union, but rather that by this custom created by the union agreement a group of separate individual contracts have been set up and are in effect until the custom is abrogated.⁷ The courts have differed on the question of whether the employee must have had knowledge of the custom as established by the agreement, and even whether knowledge alone is sufficient, or whether he must have indicated in some way his acceptance of the custom.

The second theory is known as the agency theory.⁸ At common law an agent could properly represent his principal in making a binding contract if authorized to so act, and it is a well known principle of the law that once an agent, authorized to do so, has entered into a contract for his principal, it then is the contract of the principal and not the agent. Under this theory, therefore, there is no contract relationship between the union and the employer, but a contract does

3—Pipin, Marshall A., "Enforcement of Rights Under Collective Bargaining Agreements," 6 University of Chicago Law Review 651, 1939.

4—Elgin, Joliet & Eastern Railway Company v. Burley, 325 U. S. 711, 90 Sup. Ct. 706 (1946).

5—Yazoo & M. V. R. Co. v. Webb, 64 F. 2d 902 (C.C.A. 5th 1933).

6—McCoy v. St. Joseph Belt Ry. Co., 229 Mo. App. 506, 77 S.W. (2d) 175 (1934).

7—Piercy v. Louisville & N. Ry. Co., 198 Ky. 477, 248 S.W. 1042 (1923).

8—Dierschow v. West Suburban Dairies, Inc., 276 Ill. App. 355 (1934); Reutschler v. Missouri Pacific R. Co., 126 Neb. 493, 253 N.W. 694 (1934); Gleason v. Thomas 117 W. Va. 550, 186 S.E. 304 (1936).

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exist between the individual employees and their employer. The contract was formed by the union as agent for the individual employees as principals.

The beneficiary theory,⁹ however, is the one most commonly accepted today. This is based upon the proposition that there is a valid contract between the employer and the union but that the rights under the agreement accrue automatically to the individual employees as beneficiaries. One writer has pointed out that the principal difficulty with this theory is that there is no basis on which the employer can enforce the contract against the individual employee.¹⁰ The employee becomes the beneficiary of the agreement between the union and his employer, but with no corresponding obligations on his part under a contract to which he was not a party. The case of *Gulla v. Barton*,¹¹ decided by the New York Appellate Division in 1924, illustrates well the peculiar application of this doctrine. The plaintiff here was a member of an unincorporated union. The union had made a collective bargaining agreement with his employer, but the plaintiff had no knowledge of the agreement. He had individually agreed to work for a certain wage, but in an action for back pay the court held that he had stated a good claim for the much larger wage that had been provided by the union agreement. In this particular case the individual employee might have been unable to recover under either of the other two theories, due to his individual contract with the employer.

Under any of the three theories, the rights are contractual, and in the usual case enforceable by the individual employees, and certainly under the first two theories enforceable by the employer. Of course, in certain situations where it has been provided in the agreement that an employee must submit his dispute to an arbitration board difficult questions have arisen as to whether he may have the matter settled in a court of law. In such cases, if the employee is required to submit the disputed point to an arbitration board, and if it is provided that the board's decision is to be final, the employee would thereby ordinarily be deprived of a review by a court. However, the general rule appears to be that to deny an employee the right to judicial review of the legal questions involved in the case by providing in advance that all phases of all disputes arising under the contract shall be settled by arbitration would be against public policy, and that the em-

9—*Elgin, Joliet and Eastern Railway Company v. Burley*, 325 U.S. 711, 90 Sup. Ct. 706 (1945).

10—Fumerton, Norma B., "The Collective Bargaining Agreement and Its Legal Aspects," 17 *Washington Law Review*, pp. 182-204 (1942).

11—164 App. Div. 293, 149 N.Y. Supp. 952 (1924).

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ployee should still have his day in court. If there has been no effectual means provided for settling disputes by arbitration, and it appears clearly a case for judicial treatment, then the employee may sue for damages for breach of contract. The suit would ordinarily be brought against the employer, but it would also be proper to join the union if the union could be said to have induced the breach or participated in it.¹²

So far we have discussed primarily the situation with reference to the common law. It is well to note, however, that in many of our states there is statutory law making special provision for suits by and against unincorporated associations. One type of such statutes permits the use of the name of the association as the party plaintiff or defendant, and this has been held to apply to cases of labor unions.¹³ Another type of statute allows the use of the name of an officer of the association, such officer to stand as the representative of all the necessary parties. This type, too, has been found applicable in labor organization cases.¹⁴ Then, in certain jurisdictions provision has been made for the incorporation of labor organizations. Where there has been incorporation of a union under such a statute the labor organization, like the corporation, can sue or be sued in its corporate capacity, for it has, thereby, been given a standing as a separate legal entity under the law.

Decisions of the Federal courts have not been particularly illuminating on the reaching and enforcing of collective bargaining agreements. It is evident, however, that under Federal statutes labor organizations are recognized as some kind of a legal entity, and that they can and should be suable for their acts.¹⁵ It is also believed that they have the right to bring suits at law. The recently proposed Case bill,¹⁶ among other things, carried a provision which would enable parties to sue for damages for breach of collective bargaining agreements, but the Senate Committee has voted down that provision of the bill.

Neither employers or employees have had to content themselves with common law suits for damages. Equitable remedies have been sought and granted in thousands of cases. In earlier days the injunc-

12—*Lumley v. Gye*, 2 E. & B. 216 (1853).

13—*Grand International Brotherhood of Locomotive Engineers v Green*, 210 Ala. 496, 98 So. 569 (1923).

14—*Hogan v. Brick Layers etc., Union No. 28 of the City of Syracuse, et al*, 143 Misc. Rep. 591, 256 N.Y. Supp. 898 (1932).

15—*United Mine Workers of America v. Coronado Coal Co.*, 259 U. S. 344 (1922).

16—H. R. 4908.

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tion was frequently used by employers in connection with the individual non-union agreement. Under these agreements employees contracted with employers not to join a union. The courts held that union members who persuaded employees under such agreements to join the union were inducing breach of contract. There followed a number of Federal statutes such as the Erdman Act,¹⁷ the Clayton Act,¹⁸ and the Norris-LaGuardia Act, numerous state statutes and a long line of court decisions, including such famous cases as the Debs case,¹⁹ and the Duplex Printing Company case. Notwithstanding the activity of the legislative bodies and the courts in this field, the injunction continues to be one of the most powerful remedies available to both management and labor in numerous situations. Law suits for damages are costly, particularly where the rights of many employees are involved. Therefore, in some situations employees have joined together in suits to enjoin employers from continuing an illegal practice. Employees may not ordinarily be enjoined from striking, for to do so would be an interference with their liberty, which has been guaranteed by the Constitution, but an injunction may well be against a union or its representatives for calling a strike in violation of a collective bargaining agreement. The employer might likewise be enjoined. Injunctive relief has been obtained in a great many cases since the decision in an important case in the New York Appellate Division in 1938,²⁰ in which the court held that there was no contract for specific performance of personal services, but on the other hand an agreement between two organizations, each of which maintained the power to discipline its members, and it required that that authority be exercised. Where the equity courts deny relief it is usually on one of two or three grounds, lack of consideration, absence of mutuality, or reluctance to deal with the question of specific performance in a labor relations case. One difficulty often encountered by both employers and employees in equity cases is that in the heat of the labor trouble an illegal act may have been committed that leads the court to invoke the old equitable doctrine that to obtain equitable relief you must come into equity with clean hands.

In connection with the equitable aspects of labor relations a recent case decided by the United States Supreme Court is interesting.²¹ In recent years, during which the right to bargain collectively has been extended by the National Labor Relations Act and the decisions and orders of the Board and the Federal courts, we have often heard re-

17—30 Stat. 424 (1898).

18—38 Stat. 730 (1914).

19—In re Debs, 158 U.S. 564, 15 Sup. Ct. 900 (1895).

20—Schlesinger v. Quinto, 201 N.Y. App. Div. 487, 194 N.Y. Supp. 401 (1922).

21—American Federation of Labor v. Watson, 90 L. ed. 715 (1946).

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marks to the effect that no man or woman should be denied the right to work, or in any way be hampered in the performance of his duties, by lack of membership in a labor organization. The State of Florida in 1944 amended its constitution, providing that "the right of persons to work shall not be denied or abridged on account of membership or non-membership in any labor union, or labor organization," and the amendment further provided that "this clause shall not be construed to deny or abridge the right of employees by and through a labor organization or labor union to bargain collectively with the employer." The American Federation of Labor joined with certain employers in a suit to enjoin the enforcement of this amendment to the Florida Constitution. The District Court issued a temporary restraining order, but later vacated it. It went to the United States Supreme Court which held that this was a proper case for relief in equity since suits at law would probably be slow in developing, and in the meantime collective bargaining rights might be seriously impaired. The court did not decide the merits of the case, but remanded it to the lower court with instructions to hold the bill awaiting developments in the state courts. This was to enable a fair determination of the question of irreparable injury which is a necessary element of an injunction case. The case is interesting, not alone because it illustrates rather far-reaching relief afforded by equity, but because of the type of approach the State of Florida has made in the field of labor relations law, and because in this case we have both labor and management joining hands to protect their mutual interests. The employers who joined with the union contended that if the amendment was enforced they would be unable to obtain sufficient labor to keep their businesses operating.

Another interesting trend of the Federal court decisions in the field of labor relations today is that pertaining to the protection of minority groups. The tenor of the decisions is to the effect that since Federal legislation, such as the Railway Labor Act and the National Labor Relations Act has served to give to labor greater protection in the effort to bargain on an equal basis with management, the courts will see to it that labor, through its own organized bodies, gives in turn equal protection to the minorities within its ranks.

Two recent cases dealing with the question of minorities under collective bargaining agreements are noteworthy; namely, *Steel v. Louisville and Nashville Railway Co., et al.*²² and *Tunstall v. Brotherhood of Locomotive Firemen and Enginemen, Ocean Lodge No. 76.*²³ These two decisions go far toward clarifying the law with reference to racial discrimination, and probably point the way to a new day for

22—323 U. S. 192, 65 Sup. Ct. 226 (1944).

23—323 U. S. 210, 65 Sup. Ct. 235 (1944)

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certain minority groups in our changing economic world. One of these cases was as follows:

Steel, a Negro fireman, employed by the Louisville and Nashville Railroad, brought suit against the Railroad, the Brotherhood of Locomotive Firemen and Enginemen, and certain individuals connected with the latter organization to enjoin the enforcement of labor agreements between the Brotherhood and the Railroad, which were alleged by him to be discriminatory in favor of white firemen.

The position of the Negro in the railway industry in the South has not been an enviable one, twenty-one Negro firemen having been reported murdered within a three-year period. It appears that in this particular situation the white members of the union were endeavoring to bring about revisions of the agreements that would enable them to oust from well-paying positions all members of the other race.

The Alabama court denied relief to the complainant on the ground that no duty rested upon the union to protect the Negro fireman from discrimination. The Supreme Court of the United States, however, granted certiorari, and upon hearing the case, reversed the Supreme Court of Alabama and remanded the matter for action not inconsistent with its decision. Justice Stone, in delivering the majority opinion, called attention to the fact that the very purpose of having such a representative as the Brotherhood is to secure benefits for those whom it represents and "not to deprive any of them of the benefit of collective bargaining for the advantages of the representatives of those members of the craft who selected it." The case is interesting because it indicates a trend that both management and labor will want, at least, to recognize. There probably never has been a time in our history when social and economic rights are so closely entwined as they are today.

Arbitration has played a vital role in labor relations in this country, and because it has had definite legal sanction by law-making bodies and the courts, and has proved successful in so many instances in labor disputes, the extension of the principle is being recommended in legislative halls and labor management conferences. The President of the United States, in a Labor Day statement a number of years ago, said that "the conference table must eventually take the place of the strike."²⁴

There are four forms of arbitration. First, voluntary submission and voluntary compliance. Under this form the parties voluntarily agree to submit the dispute to arbitrators, but do not agree to accept

24—New York Herald-Tribune, September 5, 1937.

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the decision. Second, voluntary submission and compulsory compliance. Under this form both parties voluntarily agree to submit the issues and to accept the decision of the arbitrator or board. Third, compulsory submission and voluntary compliance. Here the parties are compelled to submit the matter to arbitration, but they are not required to obey the award. Fourth, compulsory submission and compulsory compliance.

Arbitration should not be confused with mediation and conciliation, which latter methods have to do with bringing the contending parties together for informal discussion and mutual consideration of the points at issue and without compulsion of any kind. There appears to be a shade of difference between a mediator and a conciliator in that the mediator takes an active part in making proposals while the conciliator merely points out the desirability of reaching an early agreement.²⁵

The Railway Labor Act is a good example of the use of the second form of arbitration; namely, where there is voluntary submission and compulsory compliance. The purpose of the Act was to prevent interruptions to interstate commerce by labor trouble, and the contribution it has made to labor relations in the railway field is noteworthy. After the preliminary rules for settling a controversy have been complied with and the case has been voluntarily submitted to the Railway Adjustment Board the findings of the Board are prima facie evidence of the facts when the case goes to the court for review and final order. The arbitration award is final, if uncontested, and is enforceable at law after judgment has been entered by the courts. If contested the case may then go to the District Court and finally to the Circuit Court of Appeals.

Notwithstanding the excellent record of the Railway Adjustment Board for more than a quarter of a century, the recent case of the Elgin, Joliet and Eastern Railway Company v. Burley,²⁶ decided by the United States Supreme Court, is cause for a great deal of comment among those interested in the peaceable settlement of labor disputes by arbitration. It appears that the Railway Company took over the operations in a yard in which plaintiff was a member of the switching crew, explaining that plaintiff would be governed by the agreement then in force between the company and its employees, and which had been negotiated by the same parent union of which the plaintiff was a member. The employees brought an action against the defendant

25—McNaughton, Wayne Leslie, *Development of Labor Relations Law*, p. 120 (1941).

26—325 U. S. 711, 90 Sup. Ct. 706 (1946).

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company for violation of the union agreement. The Railway Adjustment Board determined the dispute, which had been brought to it by a union recognized as the collective bargaining agent on behalf of its members. After the settlement had been made the plaintiff contended that while the union was authorized to take his claim to the Board, it was not his legally authorized agent to negotiate, compromise, and settle any claims the plaintiffs might have for damages under Article 6 of the union agreement. The Supreme Court held here that the plaintiff was entitled to maintain an individual action in a court of law, but that he has the burden of showing that the union was without authority to represent such employee. In this decision the courts have apparently confused the usage or the custom theory and the old common law doctrine of agency. Three justices dissented, and both labor and management appear to hold the view that the decision, if followed, will tend to destroy the prestige of the Railway Adjustment Board and undermine its authority in the field of railway labor disputes.

In conclusion may I say that no attempt has been made to cover all phases of this subject, but rather we have tried to point out briefly a number of things that are still possible under the law and some of the pitfalls in the path of attaining full satisfaction by either labor, management or the public. Enough has been said, I believe, to convince you that the collective bargaining agreement is, after all, no gentlemen's agreement. Even though the courts do have difficulty in fitting it into the traditional categories of the law, they are finding ways to deal with many troublesome questions in the labor relations field, and they are constantly being aided by helpful legislation. Recent pending bills such as the Case bill and the Ball-Burton-Hatch bill have some good points. But if either of those bills are made into law it will probably not be a final solution. Further legislation, and a continued development of labor law principles by the courts, will be necessary. While this process is taking place we must all as citizens of the world's greatest democracy endeavor to understand the other man's viewpoint, to give and take, always having in mind the greatest good for the greatest number.

ADDRESS

By

KENNETH A. MCINTYRE

Kenneth A. McIntyre Associates

It is significant that our subject is the **responsibility** rather than the **obligation** of the parties in a union contract. Obligation under a contract is usually confined to the specific terms defining the contractual relations of the two parties. Obligations are inseparably linked to the legal sanctions by which the contract is enforced. Indeed, the very essence of contractual obligation is its enforceability. The commitments made under contract are obligations precisely to the extent that the law can compel the fulfillment of those commitments. In other words, obligations incurred by contract rest on the compulsive power of the law; that is to say, they rest ultimately on the police force of the government.

But while legal sanctions are implicit in contractual obligations, they are insignificant in the exercise of responsibility under a labor contract. For the responsibility lies essentially in the attempt to maintain the contract in operation without the claims and counter claims of obligations. Mutual respect of the contracting parties; their joint participation in common objectives; and their willingness to make considerate and flexible adjustments in the day to day operation of the contract — these and not legal sanctions are the basis of responsibility under the union contract. The law, to be sure, may be called upon to compel observance of the contract. But where the law is invoked in the operation of the labor contract, there responsibility has failed. In this respect, it matters little who is right. The very appeal to the law in the case of a labor contract, as in the case of a marriage contract, is in itself, an indication of the disruptive collapse of those cooperative relations which the contract sought to establish.

The word "cooperative" is particularly fitting in this context. In a sense, all contracts define a cooperative relation between the parties in that they provide for an exchange of values for their respective benefits. In the labor contract, however, this cooperation is more deep-rooted. The parties to such labor contracts are so closely related, their field of activity is so intimately associated, that neither party can adequately fulfill the terms of the contract without enlisting the cooperation of the other. It is this fact, rather than the formal clauses of the contract, that determines the nature of the responsibilities entailed in the labor contract.

From my foregoing remarks it is already apparent that when I speak of responsibility I mean something more than the mere good will and integrity which must, of course, be the foundation of every

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sound agreement. Beyond this there is a complex of relations into which responsibility enters as an active, inherent principle in the operation of the labor contract. We have seen that the implications of the contract are not exhausted by the legal obligations contained in it. For the full meaning of the contract can be appreciated only in terms of the responsibilities which are necessary conditions of its success. If I may avail myself of a medical analogy, I would say that the study of legal obligations represents a kind of pathology of the union contract, a study of its disease and disintegration; whereas the consideration of responsibilities might be regarded as the physiology and hygiene of the labor agreement, a study of the conditions of its health and continued life. While pathology is unquestionably useful in the understanding of disease, my primary concern here is with hygiene and preventive medicine.

Responsibility is an intricate concept. Within the complicated pattern of its meaning we can, however, distinguish four elements. Every responsibility involves first, a source; second, an objective; third, a context; and fourth, an authority. The source of responsibility is the person or persons **to whom** the responsibility is owed. The objective of the responsibility is the accomplishment or the purpose **for which** the responsibility is assumed. The context of the responsibility is the function or field of activity **in which** the responsibility is exercised. Finally the authority associated with the responsibility is the official power or authority **through which** the responsibility is discharged. In other words, to secure a clear understanding of a responsibility—for example, the responsibility of some person—we must be able to answer the following four questions concerning it: (1.) **To whom** is he responsible? (2.) **For what** is he responsible? (3.) **In what** function or activity does he exercise the responsibility? And (4.) **Through what** authority does he discharge it?

By applying these simple tests, we can make certain that responsibilities assumed under the contract are assigned their proper place in the organization. We can then assure ourselves that they are associated with appropriate organizational functions and that they are supported by adequate authority. This is not an exaggerated or superfluous precaution. Indeed, it can hardly be overemphasized, for one of the most common administrative failings with regard to labor relations is the assumption of responsibilities under the union contract without making suitable provisions for their implementation. The formulation of such responsibilities in the terms I indicated serves not only to clarify them but also to call attention to the functional relations into

which they enter in the organization.

In addition such analysis can reveal the precise relations among

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seemingly disparate responsibilities. This is especially helpful in the correlation of the several responsibilities of management and the union. The consideration of these responsibilities in each of the foregoing phases will disclose some significant results. I believe that the responsibilities and interests of the two parties to the labor agreement are either identical or are correlative. That is to say, in each phase, the two parties either have the same responsibility, or the responsibility of one party coincides with an interest of the other. While this principle may appear rather sweeping in its generality, it is easy to see that without it no sustained cooperation between labor and management is possible. The employees and the management of an organization are engaged in a common enterprise. The success of the enterprise requires that the responsibilities should be so assigned and exercised that the interests of all participants in the enterprise are realized through them. Thus in a properly coordinated organization, the responsibilities exercised by management will embrace the relevant interests of the employees, while the responsibilities borne by the union will not neglect the pertinent interests of the company.

But, it may be argued, doesn't this ignore the undeniable fact that there are conflicts of interest between the employees and the employer? What about the frequent and commonplace disputes concerning wages, hours, and other terms of employment; don't these disputes indicate an opposition between the responsibilities of the union and of management?

My answer to these questions is affirmative. If there were no such conflict, one of the most important purposes of collective bargaining and labor contracts would be eliminated. The resolution of such conflicts is by no means the only function of collective bargaining, but, nevertheless, it does have that very important function. The union contract resolves or at least temporarily suspends these conflicts. By making explicit provisions for the disputed issues, the agreement places labor and management on the basis of cooperative responsibility. It is on that basis that we raised the problem of the responsibilities of management and the union under the contract.

To begin with the responsibilities of management, in the narrow, legal sense of the term, management is responsible only to the ownership. But on the broad interpretation which we have adopted, the responsibilities of management include the customer and the employees as well as the ownership. This becomes at once evident when we consider the objective of the responsibility. In the administration of the labor agreement it is the aim and responsibility of management to (1) maintain the quality of the company's products and services,

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(2) prevent delays in their scheduled delivery, (3) insure adequate employee effort, and (4) provide for the maximum satisfaction and stability among employees. These, you might say, are among the normal functions of management regardless of any union contract. But, while that is true, these normal responsibilities acquire a special significance when considered in relation to the labor agreement. In entering into such agreement management has given formal recognition of the union as a participant in the exercise of one of these managerial functions, namely the maintenance of employee welfare to the extent that it lies within the purview of management's relations to the employees. But in acknowledging the union's participation in this function, management has not abandoned its own responsibility in this respect. It has continued to bear this responsibility not merely out of humanitarian motives, but because the condition and attitude of employees are inseparable from the other objectives I have enumerated, such as quality and quantity of production.

These several responsibilities are interrelated. It seems to follow, therefore, that the union's responsibilities cannot stop at the mere determination of terms and conditions of employment. In assuming this responsibility the union also commits itself to the responsibility of cooperation in management's efforts to maintain production and quality standards, to insure employee attendance and to discourage negligence by employees on the job.

I remarked earlier that every responsibility implies a corresponding authority. No one can be held responsible for the performance of a function if he has not the power or authority to perform it. Managerial authority, sometimes mistakenly termed management prerogative, is therefore implicit in the responsibilities which management is expected to fulfill. And likewise the union's responsibility in maintaining the best interests of the employees must imply the authority of leadership. The union leadership must assume the responsibility and the corresponding authority to educate its membership in the fulfillment of their share of the collective bargain. For not only the union but each individual member must be made aware of the responsibilities implied in the contract.

What I have said so far is predicated on the assumption that the conflicts of interest between the union and the management were resolved by the union contract. It would be unrealistic to ignore the fact that these disputed issues in many cases have not been eliminated but have been merely suspended and rendered temporarily inactive. As such they represent a potential threat to that cooperative responsibility which I have been discussing. For, while these conflicts

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may not find open, direct expression they can readily reappear under covert, and therefore more dangerous forms. Persistent disaffection among employees can easily arouse that antagonism and that consciousness of irreconcilable opposition of interests which could render all cooperation impossible.

Here again it is not a question of whether employees have any just grounds for complaint and discontent. The fact that such dissatisfaction persists is in itself an indictment of management. And the claim that management in such cases did not shirk its responsibilities for sound industrial and human relations, is no defense against this indictment. The assumption of responsibilities is not enough, for in itself a responsibility is little more than an attitude, or a program for action. To be fulfilled or discharged the responsibility must be implemented. It is to this problem of implementing the responsibilities of management and the union that I now wish to turn.

To orient our thinking on this point I wish to recall some of these responsibilities in a more specific form. In my previous observation I deliberately understated the importance of the particular terms of the labor contract. I did this not because I consider them of little importance, but because I wanted to emphasize that their observance does not represent a sufficient fulfillment of the responsibilities implied by the contract. I return to this point now to stress the fact that while adherence to the contractual terms is not sufficient, it is nevertheless, a necessary part of the responsibilities of both parties to the contract. This is so obvious that it would hardly deserve explicit statement were it not true that often neither the employees nor the lower levels of management have an adequate grasp of the content of the labor agreement. Clarification of the contract and dissemination of information concerning it to all those who participate in its operation is therefore another important responsibility.

All transactions under the contract will be affected by the attitude of management personnel towards the union. It is in these day-to-day transactions that the contract finds its living and most important interpretation. Even the best contract will fail where management conducts its contractual affairs with a grudging acknowledgement of the rights of employees under the contract. The cultivation in the managerial staff of appropriate attitudes towards collective bargaining is therefore also a responsibility under the contract.

I have invited your attention to these responsibilities in particular because their implementation takes the form of programs for education and development. In this connection the development of supervisors is of paramount importance on management's side; while the

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training of union stewards plays a corresponding role on the side of the union. It is no exaggeration to say that the effective exercise of the responsibilities under the labor contract is best achieved through such development measures. There is ample evidence in actual experience to support this claim, and the increasing importance assigned to such programs of supervisory development testifies to their value.

But the evidence of experience can be supplemented by more general considerations. The management's policies concerning the administration of the labor agreement find their most important application at the lower levels of line supervision. The way in which day-to-day problems of employee relations are met at this level of supervision will exert a profound influence on the general operation of the labor contract. This supervision is therefore the focus of the management's responsibilities. How accurately these responsibilities are projected to this critical point will depend on the methods employed for the institution and dissemination of policies within the organization.

One such method relies primarily on organizational procedures and regulations. It is based on the assumption that policies should be translated into carefully conceived procedures and well defined rules. In the form of such regulations the policy is then brought into operation at the lower levels of supervision. Whether this practice can be effectively used in all cases is open to question. But to the extent that it is applicable its advantages are similar to those of automatic machinery, namely, uniformity and economy in operation.

The alternative method, while it does not ignore the benefits of prescribed procedures, relies primarily on the direct dissemination and clarification of the policy at all levels of management. Instead of indoctrinating the supervisory personnel in rules and procedures, it equips them with the knowledge of the relevant aims and principles of management, and cultivates in them the habit and skill of inquiry and of independent judgment. Even if predominant reliance on prescribed procedures may insure quick results and uniformity in practice, such procedures fail in the face of novel and unprecedented situations. The training and development of supervisors, on the other hand, implements the extension of management's responsibilities down to the point of direct contact with the employees. It places the foreman in a position where he can consider each situation in terms of its individual elements, and tends to cultivate in him the qualities of intelligent leadership. These qualities are indispensable in the administration of a labor agreement, as well as in the participation of other responsibilities of management. If it is our aim to enlist the coopera-

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tion of unionized employees in the responsibilities of management, we must first develop supervisors who can carry their share of those responsibilities.

What I said about supervisory development applies with equal force to the training of stewards. The neglect to provide adequate training for its stewards has been one of the most frequent failures of union responsibility. In certain respects the steward's role is analogous to that of the foreman. His relation to the employees and his official function as the union's representative provide an opportunity for cooperation between the union and management. But to achieve such cooperation the steward must be trained in the understanding of personnel problems and of their relation to the union contract. We should not, of course, forget that the failure to achieve a cooperative relationship between the steward and the foreman is not always the fault of the steward. Much depends on the foreman's tact and diplomacy in encouraging and stimulating the steward's participation in dealing with such problems as employee performance, attendance, and safety.

Not infrequently union leaders, who acknowledge the responsibility and the interest of the union in production and in maintaining employee discipline, claim that they are unable to gain support for these responsibilities because under the democratic structure of the union they do not exert sufficient influence on the membership. I believe that such explanations rest on a misunderstanding of the nature of democratic organizations. The democratic character of a labor organization imposes certain responsibilities on its leadership with regard to the training and education of its members. Democracy must rest on the intelligence and enlightenment of the individuals participating in it. In such organizations, therefore, it becomes the special responsibility of the leadership to enlighten the members concerning their contract and the full responsibilities which they have assumed under it.

Here again, while the responsibility rests clearly with the union, the management can go a long way towards assisting and stimulating the discharge of that responsibility. Willingness to deal with union leaders on an equal plane, and a recognition of the union's proper share in personnel administration are necessary as a basis for employee cooperation under a union agreement. These and similar attitudes toward the union should not be confined to the expressed intent of top management. To be effective they must be made an integral part of the general pattern and tenor of supervision at every level.

The most prominent and significant demonstration of management's attitude toward the union and toward collective bargaining is

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afforded by the grievance procedure. The operation of the grievance "machinery" is in effect a detailed extension of collective bargaining, for it is directed to the practical application of the contract, and to its interpretation in terms of the individual employee's problem. Here the supervisor's skill as well as the management's personnel policies meet their ultimate test. There is no easier way to undermine your labor relations than through the injudicious handling of grievances. On the other hand, there are few better opportunities for consolidating the mutual goodwill and loyalty between employer and employee.

Grievances need not be regarded as avoidable and irritating interruptions of the busy supervisor's activities. They may with equal justification be viewed as welcome opportunities for conferring with individual employees concerning the status and conditions of their employment. Job functions, wages and working conditions are set up in general terms in the contract and in the organization structure of the company. But in the concrete operations and day-to-day activities of the plant these abstract formulas and schemes meet the impact of living, individual personalities. A grievance presents to the supervisor the opportunity for specific observation of personnel policies under such concrete conditions. The supervisor will gain the full benefit of this opportunity only if he approaches the case with an attitude of impartial inquiry toward the objective facts and of kindness and tolerance toward the employee involved in the case.

Throughout this brief talk I have laid primary emphasis on the importance of training and development. I have not done so because I regard these as kinds of managerial panacea. Certainly, there are many ills of management and union leadership for which the remedy lies elsewhere. But in the context of our particular problem it seems to me that responsibilities are especially dependent for their efficacy on the adequate development of supervisory skills in management and enlightened leadership in the union.

DISCUSSION

Question: In the beginning of Mr. Marsh's talk he traced the development of collective bargaining, and then said that we have arrived at a period of true collective bargaining; would he care to elaborate on what he means by collective and also what he means by bargaining, in view of the present situation?

Mr. Marsh: Had it not been for the time limit on our papers, I would have gone just a little further and called your attention to the fact that while theoretically we are in a period of true collective bargaining actually we are not, inasmuch as the government as a third party assumes to determine the merits of the bargaining controversy through its fact-finding board, and to bring certain pressure to bear upon either management or labor, or both, to reach an agreement based on the facts so found. While theoretically we appear to be swinging back to a period of true collective bargaining, we have not yet fully arrived at that point.

Question: Mr. McIntyre, during your remarks you developed the theme of educating the foreman to deal with all these personal problems and how he should act and govern himself. Would you mind telling us who would look after the production while he was doing that?

Mr. McIntyre: The foreman is not going to get very much production if he does not have pretty good relations with his group. That is why we have a lot of trouble. Generally, the foreman has come from the ranks. He understands, or should be expected to understand, the attitudes of the rank and file employees for whose work he is responsible. He cannot do that if top management negotiates a union contract and does not tell him anything about it. That is one simple thing that is too often neglected. The foreman is not going to feel very comfortable if, while he is trying to carry out his responsibilities, some rank and file worker or the union steward needles him with some information which they obtained from the union but which the foreman has not received from his own management. It is good business for top management, not only in terms of relation with the rank and file, but in terms of management's relations with the foreman as well, to inform him promptly and adequately about what is going on, and what management means when it agrees to something.

I believe personally that these matters should be dealt with in round-table conferences of foremen, and that the reactions, opinions and practical advice of the foreman should be sought by management. He then will be better equipped to take care of the day-to-day human problems that face him. He cannot devote all his time to the direct tasks of production. He has to attend to these apparently slight but nevertheless significant evidences of temperament; does he not?

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Statement From the Audience: Yes, but what time does he have to do that? He has to keep the production line going and that takes 100 percent of his time. He cannot be a personnel director and be a foreman.

A foreman is on the line 100 percent of his time and naturally he knows his men very well. I am at a loss to know how we can learn all the things that you suggest he be familiar with and where he can get the time to learn those things. I believe in one man on the one job but the foreman is supposed to be 99 kinds of people rolled into one, that is, theoretically. I am at a loss to understand what the foreman can do and what the supervisor can do to try to measure up to this standard.

Mr. McIntyre: I know that the details of technical supervision can take up 100 percent of your time. I do believe, however, that the foreman's job should be so organized that you do have time to go into these problems. Management should see to it that you and your fellow foremen are provided every week or two, as the case may be, with a couple of hours to get together in a group and interchange your experiences and your views on this subject. You and your fellow foremen will get more out of that than any book can teach you or any teacher can teach you. I believe that is the answer. Your skill in technical supervision is essential; but your management of human relations is also important. Indeed, it is so important that management ought to give you the time to cope with such problems. It is up to management to give you a chance to exchange experiences and information with your fellow foremen who have the same problems that you have.

Statement From the Audience: In reading collective bargaining agreements throughout the years, all I can see is that management has just given up one right after the other. What have they gotten out of collective bargaining? Bargaining usually means both sides get something, at least that is the way I understand it. I do not see where management gets much. Every time they go into a collective bargaining agreement they come out with less than before. Is that true or is my thinking unsound in that respect?

Mr. Marsh: It appears that labor devotes more time, effort, and money to research regarding wages, hours, and working conditions than does management. Consequently, when they come to the bargaining table labor is usually well fortified with statistics to substantiate its position. Too often management has gone to the bargaining table with insufficient facts, but with its feet braced against the union.

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demands, whatever they may be. In the new day in the labor relations field you will probably find that the large companies will set up more elaborate research departments, and the smaller companies will do the same thing through trade associations, the idea being to better support their position with labor. It is the belief of some of us in this field that when that is done labor will probably listen with a more attentive ear to the proposals of management.

Mr. McIntyre: I have seen the advances of labor through the same years and I have felt, figuratively speaking, the rapid pulse and fevered brow of management at these annual periods of giving ground and it looks awfully serious, but my philosophy on it is that management, competent management, has a lot left in the way of resourcefulness to compensate for these gains. In other words, management is not beaten when it goes out of a conference where a great deal has been given up, even when management has given up much more than they intended in the first place. I do not think that all of the ground gained by labor is ground lost by management.

For instance, I have seen it happen again and again where increased costs were forced upon a company and in the succeeding year or two, those extra costs have been more than recovered through the forced attention which management had to give to wastefulness in its operations. I have seen it and you have probably seen it happen yourselves, especially in operations on a large scale. When labor becomes relatively expensive, then the performance of that labor will be watched very closely and will be more effectively controlled.

With regard to this annual retreat which is beaten by management in the face of an aggressive and well-informed and well-equipped labor delegation, I have had some experience in getting equipped ahead of time. I think that in some instances there is too much bargaining; that if management would come better prepared and put its cards on the table, it would gain greatly. I know this cannot be made a general rule. In fact, management would get crucified in some situations if it put all its cards on the table at the very beginning. I do believe, however, that there are great advantages in dealing frankly and openly even with a tough union. By that I mean a frank and open statement of the **facts**, not a guarded, grudging or defensive admission of relevant information. It pays to be fair from the very outset of the negotiations.

There must be a background of good relations in order to secure immediate results by this approach. The employer who has been a tough opponent of the union cannot suddenly change about and get the union to drop all suspicions and have confidence and trust in that

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employer. But by the very nature of human reactions they will eventually respond. I am trying to say that oftentimes the best kind of bargaining is not to bargain, but to come out with your offer in the first place, and be able to demonstrate that this offer is going beyond what might be expected at that stage. Try to sell it on the basis that it is fair.

Along with that there must be firmness to stick by the position precisely because it is fair. There is a risk, of course, of the union trying to take advantage by viewing such fair position as a mere starting point for increasing demands. But I have been through a number of prolonged negotiations where the relations have not always been good, where there have actually been strikes in the industrial history, and yet, have had that approach produce results that surprised the management itself.

Personally, I like to see less of bargaining, and to substitute therefor, wherever humanly practicable, the atmosphere of trying to solve some mutual problems, to serve the best interests of the employees, the union, the management, and the ownership.

Question: I would appreciate a statement from each of the speakers on the advisability of a company insisting upon specific assurances in the contract for increased production and guarantees against stoppages, slow-down, and shut-down, such as those included in the Ford and Chrysler contracts.

Mr. Marsh: Clauses in contracts outlawing unauthorized work stoppages and providing penalties for those who instigate or participate in them are not entirely new. They were introduced in some union contracts during the period of World War I. Such clauses brought about the grievance procedure known today in so many union contracts, and in which the arbitration feature has often been incorporated. I firmly believe that there are great possibilities in arbitration, especially where both parties voluntarily agree ahead of time on a definite plan of arbitration and agree to abide by the decision of the arbitration board. All of us would like to eliminate the work stoppages and strikes. It is too bad we have not been able to achieve more along this line during this period immediately following the war when the continuance of full production was so much desired. The government had certain legal authority over management and labor derived from its emergency war powers which it could have extended far into the reconversion period, but as a matter of policy the controls were relaxed only to find that industry was not prepared for the change.

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Mr. McIntyre: I have not participated in the Ford negotiations and others where they succeeded in setting up penalties particularly directed at the employees who fail in their personal performance. My own attitude is that that is not the sound answer if the internal relationships of the organization are good — and I am not criticizing Ford or other corporations with whose inside affairs I am not acquainted.

One of the strongest disciplinary penalties I ever read was contained in a no-strike, no-lockout provision in a contract with a utility management, where the public reaction against the cutting off of service by the union is swift and sure. There was a strike; the contract was in full force. The striking employees were identifiable and distinguishable in the mix-up. When it was over with, the employees went back to work. Fortunately, service had not been entirely shut down. It was clear, however, that the striking employees acted in a more or less irresponsible manner. Nevertheless, it would have been most unwise if one or a dozen of them had been selected by the management and the provided penalty imposed upon them. The end result would have been worse than it was without it. The penalty was not imposed.

I believe, that even when faced with the toughest union in the world, the aim and objective of management, over as many years as may be necessary to accomplish the purpose, ought to be to win the confidence of the employees and the union leadership. With the proper attitude, management can succeed in this no matter what difficulties it faces. I mean, of course, a fair but firm attitude, not one that is soft and vacillating.

Now, regarding arbitration, I think it should serve merely as a safety valve in a contract. Discipline for falling down on the job, deliberately and otherwise, and like matters, come from disturbed union relations. These things are not solved by arbitration which really amounts to a dodging of responsibilities both by the union and the management and to passing these responsibilities on to someone who certainly knows less about the problems than the principles under the contract. I believe that management should see that this does not happen. I mean that they should take a fair and reasonable position; that we, the management, do not want to break off or discontinue these conferences; we believe that we should solve these mutual problems around this conference table, and should not delegate the responsibility to an arbitration board and abandon our responsibilities in the matter. I believe that eventually with a philosophy

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like that and a zeal for the ultimate goal, the union, its leaders and membership can be induced to settle the differences through negotiation. If it should be the case, as often happens, that the particular personalities in the union leadership are just unreasonable and do not want to do anything but make trouble, this policy might not meet with easy success and may even fail. Nevertheless, in the long run it is best for management to persist in a policy of steadfast fairness. I believe that eventually the union itself will clean house, and a new leadership will arise in that union. In other words, management's sincere and genuine exercise and demonstration of such a firm, co-operative attitude will eventually be reflected by the employees on the union's side.

Question: Is it your judgment that there should be equality of liability in the contract?

Mr. McIntyre: Again I say that penalties agreed upon in the contract do not furnish a sound and fundamental answer to the problem. You do not hold people in line by holding a penalty over them. That is not the way to cooperation which, after all, is what management wants from its employees and from the union.

Statement From the Audience: I thoroughly agree with what you say about arbitration but I hope you recall that the War Labor Board compelled arbitration, forced it upon management in practically every case. I have always been surprised that the unions called for it because it was not their prior policy. Since 1940 there has been little if any real collective bargaining in the steel industry.

Mr. McIntyre: That is true to a large extent, and the very existence of a governmental body unwittingly brought about the effect that you refer to, namely, the decline of real collective bargaining. Why was this? It was because the union leaders had to show their membership that they were fighting for them, so they were eager to take the dispute to the Board where their disputes would be dramatized and publicized in hearings. On the other hand, management would say among themselves, "Well, the union is going to take this to the War Labor Board as a dispute case. Therefore, we must not show our hand at this time." So, certainly it almost completely slowed down the bargaining process.

Economic Factors Influencing Postwar Production

C. M. THOMPSON

CLINTON S. GOLDEN

JACOB C. WACHTMAN

OPENING REMARKS

By

JACOB C. WACHTMAN

Vice President and Executive Director
Greater New Castle Association

Having just returned from five years of military service, I am out of touch with the civilian world except as the army had contact with it during the conflict. I have a great deal of catching up to do.

In my work in New Castle, which is equivalent to that of the typical Chamber of Commerce, I find a sharp and startling contrast with events of the past five years. During that time the armed services were wrestling with problems of supply and production. In the first phase we were desperately eager to get materials. Later we had bulging warehouses and were trying to move the goods to the consumers in adequate quantities to keep pace with the military operations.

Now, in the first few months of recovery, we find production problems uppermost. How can we produce enough to meet the pent-up demand? A little later we shall face the problem of persuading the consumers to buy what we are geared up to produce.

To continue the parallel, a number of folks in the services had their own ideas about how we won this war. You have been told it was won by production. This certainly was a large factor. However, many of us believe we won because the enemy made more blunders than we did. There is evidence that our attack upon the problems of recovery and reconversion has been marked by an equal amount of confusion. Certainly, in its first phase, the importance of production is paramount.

In considering our subject, "Economic Factors Influencing Postwar Production" we shall hear two individuals who are peculiarly qualified to present contrasting views. Both speakers are so well known as to obviate the need for extensive introductions. Dean Charles M. Thompson will open the discussion. Dr. Thompson is Dean Emeritus of the College of Commerce and Business Administration of the University of Illinois. Following his presentation, we shall hear Mr. Clinton S. Golden. Mr. Golden represents that hero of American youth, the man who sat in the cab and handled the throttle of a giant locomotive. Later he became affiliated with the labor movement and now is Assistant to the President, United Steelworkers of America.

ADDRESS

By

CHARLES M. THOMPSON

Dean Emeritus

College of Commerce and Finance
University of Illinois

As Chairman of the Postwar Planning Commission of the State of Illinois, the opportunity came many, many times to examine this whole problem which we are discussing today, to see what we could do about helping the merchants, the manufacturers, the farmers, and all the economic groups in our state readjust themselves to peacetime conditions.

What I have to say is not as specific. There are no specifics. If I had a specific for this trouble, I could either put myself in the position of the wealthiest person in the whole world or I could control American society, but I have no specific and no other man has a specific. He who claims to have one is a charlatan. However, we can discuss general principles and out of those general principles, the man who is willing to think, to analyze, to sympathize, will be able to help solve his problem.

As I view the situation, there are four methods of attack; the social method, that is, the sociological method; the statistical method; the historical method; and fourth, we might call a logical method, in which our reasoning would be the dominant factor.

The sociological pattern naturally leads to cases, and cases are very misleading. That is why most case workers, in all of our social uplift are carried away by individual instances.

I recall when the President of the University of Illinois called me in and he said, "C. M., I talked with one of your students the other night and he gave you heck!" He proceeded to elaborate on that statement and when he was through I said, "Mr. President, I'm sorry he did, but what did the other 2,500 say?" He was drawing conclusions on an insufficient basis and cases are usually insufficient, because there are not enough of them.

It is a dangerous path to take because of another reason—because we are carried away by our emotions; what we should like to see, rather than what the possibility is of seeing it.

The statistical method is where we get all the facts together and say, "We cannot controvert a fact, but here it is." But the fallacy lies in whose statistics are you talking about? Figures are not always reliable, because we are not sure that we have them all and in making a case, we usually do not. A man who would suppress facts is as dangerous as a man who will divert them; sometimes more dangerous,

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as a matter of fact, because there is a plausibility of truth in it, whereas in a misstatement, we can detect it.

So I do not want to attack the problem from **that** angle alone. Sometimes men attack this problem historically; they talk about the Napoleonic wars, the Civil War, the First World War, and other great wars, and they draw analogies by saying, "This is what happened after the Napoleonic War, this is what happened after the Civil War, this is what happened after World War I, and we can easily and readily suspect that this is what is going to happen now." That is dangerous, because like statistics, it must be weighed. Things must be viewed in their proper environment. I think this is also a dangerous approach.

To approach the problem entirely from the reasoning standpoint is dangerous, because you do not know all the facts. We are not realistic enough; we are too inclined to take what Aristotle or some other philosopher said, and to adapt it to the situation.

If I may, I shall try to attack this problem in a combination of ways, try to use all these methods, and perhaps others. First of all — and perhaps I am carrying coals to New Castle — in matching the magnitude of this job, this country has never seen anything like it, and neither has the world. We had greater wars, measured in number of men involved; we have had bloodier wars than this. Without taking anything away from anybody, I certainly would not do it, but in a little nation, — more men were lost in Gettysburg than we lost in Germany. Grant lost more men in The Wilderness than we lost in Okinawa. We have had certain aspects of this problem before. We have had terrible slaughter and terrible spilling of blood, and broken hearts, disrupted homes, but we have not had this economic problem before. We cannot measure it in terms of dollars; the figures would be astronomical.

Let me point out to you — rather roughly — how it would work. Supposing a column of men, 25 abreast, and 1,000 files to the mile, all were marching down the street, and behind them was another similar group, and behind them another, and behind them another. All the great parades of history would sink into insignificance. The parade of the Grand Army down Pennsylvania Avenue; the return of Napoleon from some of his victories; all of them would be petty, indeed, compared to this army I am telling you about. Suppose each of these men represented an hour of labor — I am trying to show you what we spent in this war in terms of labor hours — and suppose that army moved 24 hours a day, four miles an hour, goose-stepping, how long do you think it would take them to pass the grandstand? A week? A month? A year? No, if it started the day Columbus first stepped on the soil of the Western Hemisphere, it would not be more than two-

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thirds now past; and instead of each of these men representing one hour of labor, let each of them represent 40 hours of labor, and that parade could have started at the time of Pearl Harbor, and it would not be one-third through now. Each man representing a week of labor—that is what this war has done!

Displacement is the keynote to it, eleven million men displaced, coming back. Millions and millions of war workers displaced. All of these folks trying to find places for themselves. That is why the problem is so serious; that is why it is necessary for all of us to take a hand in trying to solve it. It is not a problem for government; it is not a problem, altogether, for management, or for any particular group, it is a problem for all of us. One of the things we have to do is to adjust ourselves personally.

It happens that I am no longer a college professor, I am a farmer and a coal operator. Let me tell you some of my farming experiences, and where I have to adjust to a new situation. The type of farming which I am primarily interested in is orcharding. For many years, we felt fortunate to get an average of \$1.40 a bushel for No. 1 apples. Last year, the selling price was \$3.85 at a ceiling to most buyers—meaning the floor price—and within two hours after the picking and packing was over, there was not an apple left in the shed. I want to say to you, with some shame, that none of them were No. 1 apples.

I have just finished cutting 500 acres of beans at \$2.80 a bushel. No one has to tell me that, unless some radical change takes place, I am not going to continue to get \$3.85 for apples, so I am adjusting myself accordingly. I know that, unless price levels rise, that is not going to be true, and I say so because it is too high; and yet I am profiting from the high price.

In our own state, yesterday, a commission which has charge of re-employment made it very clear that they are going to give unskilled workers four or five weeks, semi-skilled workers seven or eight weeks, and skilled workers 10 or 12 weeks, not to find a job, but to take it after it is found. They recognize the fact that all of us are going to have to readjust ourselves to the present situation.

A third element, or principle, it seems to me, is this: We are inclined to believe that the end of economic life is production. The end of economic life is consumption; jobs are only incidental to producing economic goods and getting them into the hands of economic consumers. If the job is the thing that would settle the problem, then the old slave owners had the answer. They had plenty of jobs for the people, but that was the solution to the problem. The problem goes deeper than that. It means jobs in productive work, turning out goods which will raise our standards of living and increase the happiness

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and prosperity of the people. It takes something more than jobs. It takes goods. I wish we might get that clear in our minds, because, after all, we must produce goods; and then we have also a mistaken notion of how goods are produced.

I have counted many persons who unconsciously believed that some agency can say, "Presto!" and goods are produced. If in a snow-storm in Western Montana, they decided they wanted T-bone steaks there, I just wonder what would happen. I guess some of us who were there would catch the steer, some of us would butcher it and skin it, and then some would have to cook it. I do not believe you can get it any other way. So we do not produce by resolution, but we produce by bringing together the factors of production, which are labor and management and capital and, of course, land. This is the only way we can produce. A resolve to do anything will not do it, and all the agencies in the world cannot produce it.

No government ever wrote a poem or composed a song. That must be done by individuals, individuals organized, cooperating and working to the same general ends. Those are the fundamental principles on which we ought to rest our case.

That brings me to some general observations. First of all, it has been stated, and I suppose a statement is not necessary, that there is now a tremendous backlog of purchasing power in this country. There is not a head of a family, here or anywhere else in the nation, who is not pestered by his family for things they want, which he could not buy during the war, but which he is prepared to buy as soon as they are available on the market. To show you how the backlog is piled up, in 1929, when we were talking about two cars in every garage and a chicken in every pot, there was less than \$5,000,000,000 in circulation in this country. Today there is \$5,000,000,000 in circulation in big bills, which in a large measure, is in the black market; all together there is \$30,000,000,000—six times as much as we had in 1929—and price levels are not six times as high. There are not six times as many people, but we have that money, and we want to spend it because we want some of the things that we have been denied during the past four years.

This thing is ready to break, and it **will** break across, because human nature being what it is, people are not going to ask so much about prices. I would not mention how much some neckties are selling for, and I heard a radio broadcast the other day about the price on Swiss watches—\$2,400 for a watch. There must be somebody who is buying them, or they would not be spending their time and money on the radio telling you about them.

The second thing I have in mind is the question of private enterprise. Lincoln said that no nation can exist half slave and half free; it must be one or the other. I should like to paraphrase that and say,

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in my opinion, no nation can be half private industry and half public industry, because private industry reaches a point, after a while, when it cannot support public industry in the style to which it is accustomed. We must have, in the end, in my opinion, one or the other.

I should like to warn manufacturers and market men against an over-expansion. We would all like to have new automobiles, but supposing we built plants over night that would produce all automobiles in the next three or four months, that are demanded. We would have men moving into those plants, and we would have congested areas, much as we had during the war, and then we would have another reconversion problem. I should like to see the resumption of civilian production a little more orderly. I should like to see it on a plane that will finally catch up and at a point about where our increased demands will take care of it in a rather level fashion

I think it is incumbent upon the American people to keep prices high. Now, I know, as well as you, that it is not high prices which stimulate industry; it is rising prices, but I think it is incumbent upon us to keep high prices; I think they will be kept high. If you study price structure, as far back, historically, as you can go, you will find that there has been a constant increasing of prices over the centuries. In other words, there has been a constant devaluation of the medium of exchange. I doubt that Britain could have managed her debts, following the Napoleonic War, on any other basis; and I do not think we will manage ours on any other basis. I do not think we could go back to the prices we had before the war, and the wages we paid, and the value of our production of our factories and our industries.

I do not see how you could carry the charges on a \$300,000,000,000 debt otherwise. I think we are in for a period of high prices for a good while to come, and perhaps permanently. I will not say "higher," but that is possible, of course.

All these things we will have to do, and we might just as well get ready to do them. If we do not do it that way, we will have to do it some other way. I do not see how we can escape. If we have a situation such as we had during the '30's, how could we pay the interest? By borrowing? That leads to bankruptcy, of course.

I think most people in this country are agreed that we have a way of life of our own, call it what you will. Free enterprise — a situation where free men can arrive at their own terms in labor and wages, not being dictated to by the state, not being told what you can do and what you cannot do. I think that is what most people want to continue. I do not think they are going to be misled by words, because they understand fully that these words do not reflect the situations properly. They know a dictatorship when they see it, and they are opposed to it,

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regardless of the language the dictator speaks, or what country he governs, or under what conditions. I think our people do not want any part of it, and not wanting any part of it, they are going to continue in their own way, of bargaining, of demanding freedom. The men, being free, are willing to take responsibilities as they come, with freedom and liberty. I feel that American industry has a great future, and I think that the greatness of the future is going to be understood through meetings like this, where we discuss all sides of the question, all phases of it. Generally speaking — with the same purpose in mind — we want to keep this thing, the American way as we understand it.

ADDRESS

By

CLINTON S. GOLDEN

Assistant to the President
United Steelworkers of America

At the outset may I say that I am not an economist and do not possess the competency except in a most general way to discuss "the economic factors influencing the production outlook for 1946."

I would much prefer to talk about some of the human factors which I think will influence the 1946 production outlook.

As one holding an executive position in a large union operating extensively in our most important basic industry, I cannot but feel that the nature and character of relationships between organized labor and industry will have some considerable effect on the production picture of the future.

At the present time great emphasis is placed by newspapers and radio commentators upon the conflicts now pending in industry.

Workers on the one hand deeply affected by discharges, lay-offs, reductions in take-home pay resulting from shorter hours, downgrading, etc., are quite naturally conscious of higher living costs which tend to remain at present levels or even increase. On the other hand, industry, desperately trying to calculate costs for peacetime products in a competitive market, wants to keep costs down and looks upon upward wage adjustments as having an inflationary effect.

Government is reluctant to give expression to anything that appears like formulation or determination of wage policy. Out of this confusion and disagreement comes conflict that impedes the transition from war to a peace economy.

The Twentieth Century Fund in a recent survey of collective bargaining trends states that more than one-quarter of the wage and salary workers of the United States were covered by collective bargaining agreements before the war. This number has been increased considerably during the war.

What this large segment of our population thinks and does with respect to industrial relations and wage policies has considerable bearing upon the future production outlook.

I heartily concur in the recent proposal of former Governor Harold Stassen of Minnesota that a study be made of the 100 American companies that have had the most successful labor and production records during the past ten years.

Such a study by thoroughly competent and impartial people with the results widely publicized would contribute more to the solution of

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some of our economic and relationship problems than will the constant dramatization of our industrial conflicts by the newspapers and radio commentators.

A labor union is an organization which concerns itself primarily with the problems of wage earners — their places and conditions of work, their hours of employment, their wages and purchasing power. Wages have a close and intimate relation to prices. Wages and prices in one industry are very much related to wages and prices in other industries. Wages and prices in all industries are intimately related to what we call politics and laws, and to our national income and prosperity.

Here in the United States the labor movement supports our system of private enterprise. It wants that system to work well and efficiently. It evaluates its operation in terms of maximum employment at good wages and constantly improving standards of living.

We are told that the 1946 effects of current lay-offs, discharges, downgrading, etc., in both private and government employment will amount to something like 30 billion dollars.

To those of us in the labor movement, this is a pretty serious matter not only for the nation's wage earners but for all our people. We believe such a serious decline in mass purchasing power seriously threatens our country's future long-range prosperity.

It is because of the seriousness of this situation that the CIO is laying so much emphasis upon the need for wage increases. We believe that in order to thrive the greatest need of private enterprise is for customers with money to spend.

Most of us have a very vivid recollection of how the private enterprise system nearly collapsed a few years ago when there were millions of unemployed without money to spend. We do not want to repeat that experience.

We believe that the payment of higher wage rates creates new purchasing power which permits the sale of the products of industry. The barometer of good business is constantly ringing cash registers, not production alone, because machines cannot purchase what they turn out. It takes an ever larger amount of money in people's pockets to provide the market for the sale of goods.

Only when there is continued good wages for the operators and tenders of the machines can there be good and steady profits for the owners of those machines.

Therefore it would seem that the expenditure of money to satisfy human necessities and wants is the real driving power that private enterprise most needs.

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A recent report of the Office of War Mobilization and Reconversion estimates that **basic wage rates** in manufacturing industries have increased only 16.1% since January, 1941. On the other hand, the Office of Economic Stabilization only recently stated that the cost of living has risen 33% since that date although **straight time average hourly earnings** in manufacturing industries have risen around 46% in the same period.

The 46% increase in straight time average hourly earnings reflects sustained high levels of output made possible by large volume orders with cost **not** a major consideration.

Under change-over conditions prevailing in the transition period, earnings more nearly reflect the basic **hourly wage rates** which have increased only 16.1% since 1941. With peacetime production geared to a competitive market labor costs become a matter of major concern.

It is worthwhile to contrast the high wartime gross earnings of manufacturing workers with their actual spendible or net earnings. Taxes, bonds, and the rise in the cost of living eat heavily into the worker's income. For example, the Bureau of Labor Statistics estimates that in January, 1945, when gross average weekly earnings were \$47.52, after making allowances for the rise in the cost of living, bond and tax deductions, the worker's net spendible earnings in terms of January, 1941, dollars were only \$32.07. Personal income taxes are continuing at a rate far above the January, 1941, level, and bond drives are still part of the picture, even though the war is over. In addition, there is no prospect of a reduction in the cost of living, all of which adds up to a continuation of the great disparity between the workers' money and real earnings.

Our economists, industrialists, and business men have made much of the fact that savings of individuals shot up from 48 billions in 1939 to 128 billions at the end of 1944. They evidently deduce from this that wage and salary workers have accumulated a great deal of wealth during the war; they are in need of goods and supplies, the production of which was curtailed during the war, and therefore they may be depended upon "to spend the nation into prosperity" during the next few years.

On the basis of surveys of "Liquid Asset Holdings" conducted by the Federal Reserve Board and published in the Federal Reserve Bulletin for September, 1945, there is little reason to be so confident.

Expert investigators assigned by the board to go into this matter conducted two scientific samples surveys — one among 423 city families in Birmingham, Alabama, and the other among 391 rural community dwellers and farmers in Douglas County, Illinois.

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In Birmingham 17% of the families questioned earned less than \$25 per week and owned only 1% of the war bonds held by the entire group, 3% of the time deposits (bank and postal savings), and 1% of the demand deposits or checking accounts.

Another 17% earned from \$25 to \$35 but possessed only 2% of the war bonds, 5% of the time deposits, and 1% of the demand deposits.

Holding of these liquid assets rose somewhat in the \$35 to \$55 per week earning group and still more in the \$55 to \$87 a week class, but the lion's share was concentrated among those earning over \$87. This group, while constituting only 16% of the total, owned 35% of the war bonds, 46% of the time deposits, and 80% of the demand deposits.

The proportions were somewhat similar in the Douglas County survey. These surveys then revealed that the top third in the income group held 77% of all the savings, the middle third 17%, and the lower third only 6%.

The study, I think, supports the contention of the organized labor movement that the bulk of the savings are in the hands of people with high incomes and that the mass of the workers have only meager savings.

If these are sound conclusions it means that manufacturers looking for a market for their products will have to largely rely on the current **earnings** rather than the **savings** of consumers. Thus it would seem that there is ample justification for labor's insistence upon upward wage adjustments in order to have sustained mass buying power.

On the basis of the national output rate for the first half of 1945, it is estimated that unemployment deprives the nation of approximately \$4,000 per worker per year. In other words, if, as some experts have predicted, 8 million workers are unemployed next year, their idleness would be depriving the country of national wealth at a rate of 32 billion dollars per year.

One factor which threatens full production and full employment in 1946 is the so-called break-even point of a typical industry. A study by the W. P. B. of 65 industries revealed that 30 of them could "break even" at a level of operations equal to less than 60% of full capacity. More than 50 of the industries reported they could break even at a level of less than 70% of capacity. Organized labor argues that the wage bill must be expanded if we are to insure full production and full employment. American prosperity can only be built on large volume production and consumption.

Through the device of organization, workers have become articulate and are able to give effective expression to their convictions and desires.

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They will not willingly admit to a lowering of their standards. Inasmuch as the lowering or improving of their standards affects for good or ill the destinies of most of our people, labor's ideas and proposals should be given serious consideration.

Increasingly labor has come to support proposals and plans for increased productivity because of the confidence acquired through organization that it can effectively participate in the decisions leading to equitable distribution of the fruits of increased productivity.

If we are to enlarge our national output of goods and services the maximum degree of teamwork between industry, labor and government is required. To achieve that we must have increasing understanding and acceptance of the role of labor organizations in our economic society by industry and government. Fair and reasonable consideration must be given to labor's proposals about wages and employment.

If sound cooperative relationships between organizations of labor and industrial management can be established we may confidently look forward to both diminishing conflict and increased productivity.

Today it is well to keep in mind that with 14 million organized workers who with their families and dependents constitute a very large segment of our population, the unions increasingly identify the interests of their members with the public interest.

The decisions reached between unions and employers through collective bargaining over wages profoundly influence American economic life and activity.

The unions want to play a constructive role. Their members are at once producers and consumers. They are therefore concerned about both wages and prices. Increasingly they become aware that wage increases are meaningless if they are wiped out by price increases. They are not willing to let "natural economic law" run its course. They do not accept the dictum "that in the long run everything will be right." They calculate that if the "run" is long enough most of us will be dead.

Therefore we say that substandard wages should be raised to a decent level regardless of the effect on prices. We fully recognize that in certain highly competitive, **normally** unprofitable industries like textiles, for example, wage increases must be passed on to the public.

On the other hand where hourly wage rates are well above minimum levels of decency our unions are increasingly willing to relate earnings to productivity. Wage increases wholly unrelated to increased productivity often lead to price increases which are unsound and disruptive of the economic system.

Labor, therefore, contends that it has a legitimate interest in prices and profits and constantly stresses the principle that high output with

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low prices can preserve profits while lowering unit overhead costs and increasing employment.

We believe that labor standards should be uniform in an industry and should be set by collective bargaining with well-managed firms. Labor readily concedes that exceptionally managed firms should receive exceptional rewards in the form of profits provided they flow from the application of managerial skill and not from monopolistic practices.

At the same time labor insists that when an enterprise is not well managed the resultant losses should accrue to the stockholders and not be reflected in a lowering of the workers' standards of living.

We reject the argument that basic wage rates should be lowered with losses. Profits can often be attributed in part at least to labor's efforts; losses are often beyond its control. It should not be overlooked that the workers often bear losses as a result of involuntary unemployment.

To conclude — the production outlook for 1946 can well be encouraging if:

1. The relationships between industrial management and unions can be placed on a sound cooperative basis.
2. There is an indicated willingness by government and management to see that all reasonable efforts are directed toward maintaining mass purchasing power.
3. Government seeks the aid and advice of industry and labor in formulating policies directed toward encouraging full and regularized employment and maximum levels of output.
4. Government uses its powers fairly and wisely to control prices until such time as a sufficient volume of production assures an adequate supply of goods to meet consumers' requirements.

DISCUSSION

Statement from the audience: I recall that Justice Brandeis once asked, in refereeing a labor case, — in which labor had asked for a 10 per cent increase in wages, and the management said it could not be done without increasing prices — if it would not be possible to increase the wages, reduce prices, and increase profits, if there were scientific management. I believe all three can be accomplished.

Mr. Golden: You can't start an argument with me on that.

Dean Thompson: Nor with me.

Question: Our discussion thus far has centered entirely on the problems of workers and management in the United States. We have not had any reference to the influence of our economy on that of the rest of the world, or vice versa.

Would the speakers care to comment on this phase of the problem?

Dean Thompson: I grew up on a farm, on a little, poor, worn-out farm, and in my boyhood days we plowed corn with a single plow, which meant two round trips on each row with a horse; today we farm with a four-row cultivator at the rate of ten miles an hour, but much of the world still uses the team and plow. It will require tremendous educational campaigns to persuade these people to quit plowing with crooked sticks and with plows such as I have described and get them to do the thing which will turn out goods.

A man who farms under the conditions of my boyhood days will never be in the market for much, because he is not producing much; and certainly, if any economic society ought to be in a position to exchange its goods for the goods of others, they should be educated to it. Otherwise, it becomes beneficiary gifts. I should like to see the world do it. I should like to see it in India, China, the South American countries, and in Mexico, but it will take a long campaign of education to get folks to do that.

Mr. Golden: I am in complete agreement with Dean Thompson, that the only way to get wealth is to work and produce wealth. I do not think there is any difference between us on that subject at all.

As I tried to say, at the beginning, I am more concerned about people than about things. A few days ago, a committee from a community in Western Pennsylvania came to Washington in a very agitated state of mind, to say that they understood that the principal industry in their community, which they depended upon for livelihood for a great many years, was going to liquidate. They expressed great apprehension as to what would result in this community. These people had their life savings invested in homes, property, businesses, and so forth, and all of them visualized their savings and investments being liquidated also.

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I tried to find out the basis for their apprehension, and all I could get from them was that it was "rumored."

I did not have an opportunity until this morning to talk to the president of the company which operated that particular plant along with several others. He told that before the war, his company produced 70 per cent of all of a certain line of products which were produced in this country, but at the present time, making due allowance for the cancellation of war contracts, as far as they could see in the immediate future, they would only supply 29 per cent, as against the former 70 per cent. He told me that when they produced 70 per cent of the total product, they kept their prices high, and they did not make many improvements in their production methods, with the result that a great deal of the market went to other concerns who, apparently, had improved methods of production. "So," he said, "we have had to bestir ourselves and do things. We are going to spend a great many million dollars in new equipment and in new plant capacity. As to how much of it will be spent in this particular community, no final decisions have yet been reached. We may spend a great deal, or we may completely liquidate the operations there and move them to other places, where we think we can get lower costs."

In the course of the discussion he told me that they had developed a new type of equipment that would turn out the product at a rate of 600 feet a minute. I am not at liberty to comment in detail on the character of the product or the name of the firm because the matter is in a state of decision at the present. The only reason that I mention this is, that if he is going to turn out a product that is in great demand at that rate, and if his competitors are also going to remain in business, there will apparently come a time when they will be able to fill all of the domestic requirements. If they employ many thousands of people with this enormous increase in output, they must find other markets. I do not think they are going to find markets in other countries where they turn over the soil with a crooked stick or use the methods that Dean Thompson described as being used when he was a boy on the farm.

All of this leads, it seems to me, to one further conclusion. I do not think management can, by itself, get very far in the kind of world that we live in today; I do not think labor can, and I am quite certain government cannot.

I think that we live in a world of increasing interdependence, and I think that interdependence is not only pulling together as a team, but having a deep and legitimate concern about other countries, if we ourselves are going to remain free and prosperous, peaceful and happy.

Question: Dislocations as the result of the war, have created a great many problems which we are trying to solve, and among them

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is the one of adjustment. How are those who were technically trained during the war going to adjust themselves to working in a grocery store, selling potatoes and canned goods, at a much lower income?

Mr. Golden: This whole problem of readjustment, is a fundamental one. The millions of men who have been in the armed services have had in the main, an entirely new set of experiences, and have acquired new skills. A great many of them are coming out with high hopes of being something more than they were when they went into the service.

Industry, management, and labor had a good deal of their freedom curtailed during the war. I think it is in keeping with our best traditions that, in most instances, they consented to these restrictions of their liberties. Now they are finding that these restrictions are being removed. Some are bewildered, some are irritated, some annoyed; they are all having problems of readjustment that are not as simple as making the office boy who became a colonel, an office boy again.

In this period, there is need for the utmost patience, tolerance and goodwill and attempts to understand. I suppose it is not a very elegant way to describe the situation to say that it is similar to sobering up after having been out on a tremendous drunk. We are in the process of sobering up. We are suffering from an awful hangover. The way we talk and act, sometimes, is not very rational, but I think we will sober up. I do not know of any greater problem that we have to deal with than the problem of making the adjustments necessitated by the ending of the war.

Question: I was interested in Mr. Golden's statement to the effect that where inefficient management brings losses, those losses must be borne by the stockholders, and not by reduction in labor rates. Realizing that there are some inefficiencies in all management, I should like to hear a little more discussion from Mr. Golden, as well as from Dean Thompson, on this.

Mr. Golden: If we are to have sustained prosperity, we cannot have it with widely fluctuating standards of living for all the people. What I tried to point out—and perhaps not too effectively—is that if a concern does have inefficient management, I do not think it ought to be rewarded for its continuing inefficiency at the expense of the pay envelope of the people who work for them.

I think management has been exceedingly ingenious in devising forms of incentives for workers. I think now and then management needs a few incentives, and I think one of them should be the elimination of any incentive for poor management; that poor management should not feel secure because it can make up its deficiencies or its losses up by taking them out of the pay envelopes of the people who work for the firm they manage.

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I do not think we have reached the point where the workers are running industry or where they want to. Some people like to be frightened about it; they like to be frightened at the spectre of an organization, and they somehow compensate by saying that these "darn unions" are trying to take over the business. I do not think any of the unions have any such idea as that. However, I do think that management has a responsibility, not only to the stockholders, but to the community, of being the kind of management that proves really enterprising.

Dean Thompson: As I view the situation of collective bargaining it seems with a standard wage for an industry and free competition, that those concerns which are losing money could not push it back, because they would have to quit. I am thinking of the coal mining industry. We have a standard wage throughout the states of Indiana and Illinois and, if we cannot operate at a profit, we must quit. If each industry had a different wage, and the poorer plants and poor management were driving the men down that would be something entirely different.

Let me say further in respect to the education of the poorer people for fuller consumption that I am just as sympathetic and sentimental as anybody can be because of my whole background. We are all carried away by our emotions, rather than by our thinking, and yet I feel, I think I know, that we have only so many pork chops, so many radios, so many washing machines, so many refrigerators. Perhaps we ought to share these things, but we ought to face the fact that if we start sharing with 400,000,000 in China and 258,000,000 in India, and so many millions in South America, and all the rest of the world that would mean so much less for ourselves. I am not opposing it, but we ought to face the facts.

I have seen gambling games when I was young, and I never yet have seen a youth who won who would give the loser money to keep on in the game. If you care to look at the figures, you will find, between the two World Wars, that we gave out \$32,000,000,000 worth of goods more than we got in. If we bring prosperity to ourselves by that method all right, but my simple mind does not grasp it.

Mr. Golden: I hope I did not create an impression that I wanted to take whatever radios and refrigerators, and everything else we have, and divide them. I thought what we were talking about was primitive production, and how we could create more wealth; I said—at least I inferred—that I did not think these people who operated with a crooked stick and by primitive methods were likely to catch up with the parade in more advanced countries without some help.

ECONOMIC FACTORS INFLUENCING POSTWAR PRODUCTION

I suppose that the Chinese, of whom there are many, many millions, are not in a position to make washing machines and refrigerators and automobiles, but I suppose—and again I reiterate, I am not an economist—that they have something in that huge country of theirs that is more plentiful than what we have, and it may be something that we need. It seems to me that I have heard talk about tungsten; I would suppose that if we really set our minds on becoming concerned about our fellowmen, we could do something about it.

A scheme might be worked out whereby they would taking washing machines in exchange for tungsten; and somewhere in the whole process, they might learn how to till their soil with something besides a crooked stick.

I am not in favor of being generous beyond the point of helping people who are in distress as a result of a devastating war, and I do not want to keep shoveling things out with nothing coming in in return. However, I do think that if we are to look forward to a peaceful and prosperous future, we must direct our efforts beyond the confines of our own country and beyond our own particular domestic problems.

Dean Thompson: Then there is no difference in our thinking. I want to emphasize the fact that if we are going to educate these folks for production, that is one thing; but in order to exchange radios and washing machines and automobiles with them, they must have something to exchange, and they are not going to have anything to exchange. They do not have enough, they do not produce enough to buy these things. I am for the educational program and I think the goal should be a much higher standard of living. However, we do have a much higher standard of living right here, than in the rest of the world, and we ought to sacrifice a lot to keep it.

I merely pointed out that there is a possibility that we may experience a decline, which I am not objecting to, but I think we ought to face the facts. I want to see world markets; I want to see the people of the world able to buy our products on the basis that they are produced by free labor, not slave labor.

Mr. Golden: I am in agreement with Dean Thompson. I take it that what he is alking about is the function of the educators, the functions they have to perform. I am in complete agreement. The world needs a lot more education.

Question: Do either of the speakers care to comment on the advisability of furnishing machine tools to some of these countries?

Mr. Golden: I am in favor of it.

Dean Thompson: I think that is the way to do it.

ECONOMIC FACTORS INFLUENCING POSTWAR PRODUCTION

Statement from the Audience: As to the comments that have been made about government and government participation, and government interference, I think that whether we like it or not, we are going to have more government participation and more government interference. At the moment, we are in the position of having the normal economic controls, namely, the buyer and the seller in a relatively equal position, removed as control factors. Something must be substituted for that, and we call upon government, in the absence of the normal market situation.

I am afraid, as our problems accumulate in the postwar period which we are discussing, that we are likely to have to call upon government to serve in one capacity or another, to help solve them. It seems to me that government must be accepted as a part in the whole business of making this complicated society of ours work. That does not mean that government needs to be the dictator, or that it needs subordinate rights of business, of management, or labor and capital, but it will certainly have to play a part, and I believe an ever increasing part.

As a representative of UNRRA, I should like to add just a few comments to those that have been made by the two speakers today. We are sending terribly little to the countries of Europe, the liberated countries. We are, at the moment, so short of cash that we are cutting out almost all other types of goods, in order to buy food, to maintain a very low caloric standard, to say nothing of the vitamin and protein components of the normal diet. We are sending, generally, something under the quantities of food necessary to maintain a 2,000 caloric diet per day.

We need to do very little in the way of education to get the people of Europe to use modern equipment. I have come from Yugoslavia, where I spent six months as the deputy commissioner in charge of the supplies. I wish you could see the people of Yugoslavia, examining and trying out the new tractors that have been delivered to that country. It is true that they need instruction on how to use them, but we are taking over mechanics and drivers who are teaching them how to operate and maintain them.

We are sending into Poland a group of repairmen for motorized equipment, staffed by Polish mechanics who were trained in the British Army during the war. That sort of thing is going on everywhere. What they need is the equipment; they will learn how to use it.

Commenting on the statements that were made by Dean Thompson, the countries of Europe are ready and willing to buy from this country. The problem is how they will pay for what they want. The whole of Europe—in fact, the whole of the Far East—is hungry for

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American goods, but we have generally shut out the possibility of selling their goods in this country, and thereby acquiring means of buying our own goods. If we really want an exchange with these countries, we must lower our tariffs, increase the possibilities of their making an exchange with us, otherwise what we send to them becomes, in fact, a gift.

Question: I was reading a report recently, in which it was stated that the production in this country, per man hour, in the first 40 years had just about doubled. I wonder if Mr. Golden would care to comment on how this increase compares with the increase in the hourly wage rate during the same period, and whether, in the future, there should be any relationship between the increase in production per man hour and the increase in the wage rate.

Mr. Golden: I know there has been a great increase in productivity, and I look forward — once we get over this immediate transition period and get settled down to sustained peacetime production — to a further, very considerable increase. I do not know that I have been very successful in convincing very many people of it, but one of my concerns relates to what can be done, by management, and even by government, in this particular period, that would help to get some of the fear and apprehension out of people's minds, so they can settle down more quickly. I think ultimately they will, but I think the process could be accelerated in some way.

I think — as I tried to indicate in my talk — that when you get above the minimum levels of decency in wages, there is an increasing willingness on the part of the union to relate wage increases to increased productivity.

Finally, I should say that in the kind of future we are facing, that unless we get more deeply implanted in our minds the fact that the only way we can survive is by all social and economic groups pulling together; if we do not keep that in mind, I am afraid we are lost.

I suppose we are all more or less victims of environment and upbringing, but some time or another we must quit glaring at each other, and pull together if we really want to be saved.

Question: Observation has it that capitalism is a dynamic society; it requires expansion. We have reached the stage, undoubtedly, where it is quite obvious that expansion is necessary, and I see no way of doing that except through expanding into world markets. We have many industries that have reached far beyond the national boundary line, and some way or another, I have an idea that can be done. Is it not necessary for us to find a way in which we can have extensive world markets and, by this process, raise the standard of living abroad and, incidentally, raise our own?

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Dean Thompson: When we had 100,000,000 people, we were talking about foreign markets; when we had 60,000,000 people, we were talking about markets, and now we have 140 million. I suppose if we had 500,000,000 people, we would still need it and talk about it. It is rather odd, but that does not keep industry from producing ahead of demand and that is when depression comes. I think we ought to exchange on a profitable basis; we should not give it to them.

Question: There is one thing that has not been introduced here: I have in mind a generation of farmers, who were very fine farmers, but all of a sudden one of the grandchildren was found to be not very well qualified to operate a farm; and pretty soon the place began to look seedy and run down. I cannot help thinking of certain industries in a similar way.

Where industry become inefficient should we ask the government to step in and subsidize the misfit, or should we let it fold up because of its own inefficiency?

Dean Thompson: The normal competitive processes would automatically eliminate them, and that is exactly what I am asking in the case of industry in this country. If we are producing shoes, and management is inefficient, competition automatically puts us out of business.

Question: When that happens, what do we do with the workers who were displaced in this factory?

Dean Thompson: We must re-educate them. The other element is the fact that this country, more than any other country, has combined labor and machines in a way to provide greater advantages than are enjoyed in other countries.

The Guaranteed Annual Wage

By

A. D. H. KAPLAN

S. M. DU BRUL

BORIS SHISHKIN

DONALD V. SAWHILL

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The conclusions arrived at as a result of The Foundation's conferences and forum meetings during the past few years are that the most desirable economic objectives for America for the next several years are as follows:

1. Economic expansion, a rising national income, high levels of production, and high levels of employment.
2. An economic system of private business enterprise, business competition, and a continuous birth of new business units.
3. Equity of economic opportunity, incentives for the development of individual talents, resourcefulness, ingenuity, and enterprise.
4. A reasonable measure of economic security, stability, progress, and status for the individual.
5. International cooperation and world peace.

Assuming that the above objectives are the most important economic goals for America in the years to come it follows that our chances of achieving them will increase almost in direct proportion to the number of citizens who understand the facts, and reason logically on them. This applies with special significance to all persons charged with the responsibility of making decisions on policy formation in business, labor, and government; and to all persons who have the responsibility of guiding the thinking of others.

To the end of fostering greater public understanding of how America as a nation can most effectively implement the achievement of her desired ends, The Economic and Business Foundation sponsors annually a series of Conferences and Forums on a proposed program of American Business Policies. This pamphlet contains the proceedings of one of those meetings.

The Guaranteed Annual Wage

A. D. H. KAPLAN

S. M. DU BRUL

BORIS SHISHKIN

DONALD V. SAWHILL

OPENING REMARKS

By

DONALD V. SAWHILL

President, Mercer Tube and Manufacturing Company

The subject for discussion this afternoon, "The Guaranteed Annual Wage," is one in which I have had a good deal of interest for several years. In fact, we have carried on considerable research on this subject ourselves to determine whether or not, in our opinion, we could establish it in our two plants. Thus far, we have not found any formula that we think could apply successfully to our operations.

In our meeting this afternoon we are fortunate in having as speakers three distinguished gentlemen, all of whom are well informed on this subject. It will be our privilege to listen to their opinions, to ask them questions and then form our judgment. Undoubtedly, all of us in the steel industry will sooner or later be faced with union demands for the guaranteed annual wage; therefore, it behooves all of us to learn all we can about how to handle this problem.

Our first speaker this afternoon will be Dr. A. D. H. Kaplan, of the Research Staff of The Brookings Institution, who has devoted much time to the study of procedures for stabilizing employment. Mr. S. M. Du Brul, the second speaker in this afternoon's session, is director of the Labor-Economics section of the General Motors Corporation, and likewise has studied carefully the possibility of developing an annual wage program for durable goods industries. Mr. Boris Shishkin, economist for the American Federation of Labor, and consultant for the War Production Board, will be the third speaker in this panel. Mr. Shishkin has long been associated with the labor movement and is thoroughly acquainted with plans which have already been developed for guaranteeing employment.

ADDRESS

by

A. D. H. KAPLAN
Research Staff
The Brookings Institution

IMPLICATIONS OF INDUSTRY-WIDE WAGE GUARANTEES

The current public interest in wage guarantees has been accompanied by a shift of emphasis from the objectives of individual company managements to those of labor organizations representing entire industries.

The focus of attention has also shifted in another respect. The best known company plans for increasing security of wages have been associated with firms that produce or distribute consumer goods—a soap plant, a shoe factory, a packing house, a mail order house. But the first major industry-wide request for the guarantee of annual full-time wages has been made in behalf of the steel workers, taking the issue into a heavy industry—one in which cyclical rather than seasonal factors account for the important fluctuations in business activity. The campaign to achieve a guaranteed annual wage for steel workers is regarded as a first step to be followed by similar efforts to bring under annual wage guarantees such other basic industries as automobiles, rubber, shipbuilding, and textiles, among others.

Moreover, consideration of the annual wage is now being tied to the even more widely discussed subject of full employment, and its possible attainment through planned encouragement of production and consumption.

In the new frame of reference thus given to the subject of wage security, we have to consider the potential impact not alone on the operations of a given company and its working force, but on the organization of industries and the operation of our economy. I shall, therefore, refer to the security plans devised for the individual company only to supply a background against which to see more clearly what is implied in the proposed extension of the annual wage principle across broad segments of our business structure.

Scope of Guarantees

Let us take a brief interval to define our title. Strictly speaking, the term **guaranteed annual wage** implies a guarantee of year-round employment at a specified weekly rate, calculated to insure to the employe a certain minimum annual income. The fact is, however, that agreements between management and labor guaranteeing both a full year's work and a full year's wages at standard rates, have been very rare. They have been applied to a comparative handful of employes, mainly in the distributive lines, who would in any event be retained as a permanent nucleus of manpower. The plans for regularization of employment and pay rolls which have been referred to as "annual wage" plans or "guaranteed wage" plans, include a

variety of carefully restricted commitments. The following illustrations will suggest the range of the better known security wage schemes:

1. The estimated annual value of the labor of eligible employes is divided for each class by 52, to determine the weekly average earnings. To support the equalized weekly pay check the worker is debited with the deficiency of hours worked in slack weeks, and credited with his excess hours at the peak season. The assumption is that the debits and credits will offset each other; adjustments are provided for overtime, substandard output, or other variations from the perfect balance of work debits and work credits. (Hormel & Co., Sears-Roebuck).

2. After a stated probationary period, say one or two years, the worker acquires a job tenure which entitles him to x weeks of annual employment, rather than a wage figure. Such employment guarantees may run anywhere from a few months for a seasonally limited line to 52 weeks for a firm with a stable year-round production. (Proctor & Gamble has most of its plants under this type of commitment).

3. The dollar value of the labor is estimated to represent a stated percentage of the total value of the product, and the weekly pay checks are distributed in accord with that percentage. Reserves may be withheld in good years to aid in less favorable periods. The annual total of the pay checks will rise or fall according to the total dollar volume of the business done. This is a scheme of sharing the work and sharing the risks of fluctuation in output or prices. (Nunn-Bush Shoe Co.)

4. In return for a guarantee of weekly pay checks for a full year, the employe accepts an annual wage based on a lower hourly rate than would apply if he took his work and pay whenever the employer had work for him. Thus, the Electrical Workers AFL in New York plan \$3,000 for 50 weeks of 40 hours each as against a flat rate of \$2 per hour. In Wisconsin, the Amalgamated has signed union agreements for 50 weeks of guaranteed employment with automatic increase of five per cent in hourly rate if the guarantee is withdrawn.

5. Variations of the wage guarantee may supplement unemployment compensation or cover a brief period. Guarantees, written or unwritten, may be for the current week, month, or season. An employe taken on at the beginning of the week (or month) will be guaranteed full employment (or given equivalent wages) for the balance of the week (or month) as the case may be. (Swift & Co., which has no formal written commitment with the workers, operates on that basis.)

The life of the guarantee is as a rule limited to one year; it may be a pronouncement by management of an agreement with a union. Most of the company schemes provide for modification as business conditions require, and most firms have in practice taken advantage of the privilege of modification. For example, a chemical, paper and

manufacturing firm which started out with a guarantee of full time employment of 52 weeks in the Twenties and came down to 80 per cent of employment for 44 weeks and then 50 per cent employment for 44 weeks. General Electric, after dropping from 1,500 hours guaranteed work in 1929 to 1,250 in 1933, abandoned its annual wage plan soon after the Social Security Act came into being. Proctor & Gamble, during a period of declining business, decreased the number of covered employees from those with six months or more of service to those with two years or more of service.

The great majority of industrial firms that started out with guarantees of so many weeks of work per year, or of fixed pay roll checks, were apparently unable to carry them through the depression years. All but two of the known wage security plans extant in the 1920's were abandoned in the thirties. On the other hand, General Motors, and the retail stores of Sears-Roebuck, discontinued their formal plans during the war, when the formal commitment was a purely academic matter with the workers actually doing, under war conditions, better than the plans provided.

Limited Carry-Over of Company Experience

These voluntary schemes, largely concentrated in consumer goods industries, were not extensive enough to have an appreciable effect on general business policy, nor even on the competition in their particular industries. A firm, after reviewing its own case, determined that it could afford the cost of giving the workers a keener sense of attachment to the business, thereby encouraging better morale, greater efficiency, and greater stability of the labor force. The workers, in turn, enjoyed the satisfaction of a formally acknowledged tenure with the company. The commitments of individual firms have not been so rigid as to discourage the company from experimenting with new products or methods. Within limits, workers have moved from one department to another in accord with work to be done. Temporary crews or gangs used on experimental jobs did not require the guarantees applying to the established employees.

The existence of a formal plan is a challenge to the management to adjust and rationalize the year-round program of production and marketing in harmony with the commitments for smoothing out employment and pay rolls. There is evidence that under a guarantee plan the workers assume long-term obligations for home ownership, insurance, purchases of durable goods, etc., with a greater degree of confidence. Austin, Minnesota, the home of the Hormel Packing Company, has given prominence to the claim of increased community well-being as a result of the stabilization of wages.

There is much in the experience of firms with a history of employment and wage guarantees to suggest that other firms may improve their industrial relations and obtain more efficient operation, by taking advantage of the possibilities of a plan for regularization of workers' incomes. The one feature that these voluntary commit-

ments have in common with the more ambitious objectives in the drive for industry-wide annual wages is the recognition of the value of increasing real security of employment, and employment opportunity, for the mass of workers. Our immediate question then, is: "Why, if the wage security plan makes everybody happy, in firms that have continuously operated under it, should not we bring whole industries under a blanket of guaranteed annual wages?"

Let me here suggest one form the answer to that question may take, by recalling the case of the factory worker who took his wife and baby for a week-end outing. They had a wonderful time, and the man couldn't wait until Monday to tell his thirty co-workers in the shop all about the idyllic spot they had found—the unspoiled beauty of the place, so restful and uplifting to their spirits. The next week the little family started out on a trek to the same peaceful haven; but lo and behold, the families of 29 of his co-workers who had caught his enthusiasm, were already on the scene. The children were running around in lively circles; food and newspapers were strewn on the green. Our friend and his wife took one look at the boisterous scene, then took the lunch basket back into the car and moved on to find themselves another peaceful spot about which he was not going to broadcast this time. We hope the 29 other families managed to have a good time, too. The only point I want to make is that theirs was not exactly the same kind of outing that our friend experienced when he had had the scene to himself.

In the same way, it is conceivable that a whole industry or a group of key industries may come in under an agreement for a guaranteed annual wage, and the War Labor Board or some other agency may formally decree what was proposed in the Steel case—50 weeks of full employment, 40 hours per week, at prevailing rates for all workers who have been attached to the industry for three or four months. But if industry across the board comes under that kind of guarantee it isn't going to have the particular situation to which Hormel, or Proctor & Gamble, or Nunn-Bush, or Sears Roebuck points with pardonable pride. A vast industry like steel—as distinguished from a single firm making garden tools, let us say—does not pose us with the relatively simple problem of ironing out week-to-week variations in pay rolls by a process of averaging pay checks or filling in with interseasonal by-products. When whole industries, particularly capital goods industries, are brought under an annual wage, major risks of cyclical fluctuations, technological changes, and even radical shifts in buying habits of producers, as well as consumers, must be considered. The commitment in an industry that moves in uncertain cycles has comparatively little value if limited to a single year's contract. The maximum promised annually must be heavily discounted, on the other hand, if the life of the contract is to cover a longer period, into an unforeseeable future. We have also a critical aspect of the problem, exemplified by coal, where the closing weeks of an industry agreement cast a heavy cloud over national production while the commitment is being readjusted for the next period.

Guarantees and Total Employment

An industry-wide annual wage agreement promises a net advantage to labor only if it can thereby assure a greater total volume of employment, as well as greater continuity of employment, than would be granted without the annual wage commitment. The goal is to keep the pay checks flowing at a high level of employment without the gnawing fear of unemployment when orders taper off. Now the realistic labor representatives understand, as well as management and the rest of us, that a mere disbursement of pay roll funds, without corresponding production to match those funds, could not continue without giving us pay checks that would have little value in terms of exchange for real goods and services. But the argument that has been posed in behalf of the guaranteed annual wage is, in essence, that the very fact of continuous pay checks flowing into the hands of industrial workers would enable them to keep up a demand for goods and services of all kinds. The demand is expected to ramify into practically every channel of business, on producers' as well as consumers' goods, and thus help to maintain that high level of employment at which guarantees can be sustained with adequate production.

Herein is the central issue, the one in which we have a common concern: Will the commitment of broad segments of industry to a system of annual wage guarantees — putting the wage bill in the category of a fixed overhead — help to stabilize production at high levels? And as a corollary: If the guarantee of annual wages is invoked, what other measures must be invoked, along with annual wage guarantees in order to insure that wage commitments can and will be productively sustained?

Whose Responsibility?

In a discussion of the responsibility for making good the annual wage, the President of the CIO has said (I quote from the official pamphlet entitled, "Guaranteed Wages the Year Round"):

"If employers will agree to give labor regular work and pay, the whole community will benefit. . . . If employers fail to provide jobs, and workers are forced to remain idle through no fault of their own, then why should their wives and children bear the cost. . . . The employer sets aside a fund to replace old machines, to pay off bond holders and people who have put money into the business. It is just as important to set aside money to protect workers who have put their strength in their jobs and whose hopes and livelihood depend upon employment."

In the same vein, Harold Ruttenberg of the Steel Workers' staff, has expressed the view, over the radio, that industry "will largely eliminate chronic unemployment when it becomes more costly to have its workers unemployed." Is management in a position to accept that responsibility? Let us probe the matter briefly, bearing in mind the time limitation set for this talk.

Annual Wage as Fixed Overhead

With an annual wage guarantee applied across an industry, the bill for labor becomes essentially a fixed overhead. Each firm must thereupon seek ways to maintain a volume of production sufficient to justify its share of the aggregate pay roll commitment. Where the individual firm was reaching out for that extra business needed to fill in the slack periods, to sustain employment, it may or may not have made a dent in the activity of competitors. A single packer like Hormel & Company, let us say, could choose and pick a combination of slaughtering, packing, canning and packaging activities which, together, fill out and round out its own operations, without having any serious effect on the total activities of the big packers like Swift & Company, Armour, and others of comparable magnitude. But suppose that each one of these is driven, by virtue of an annual pay roll overhead commitment, likewise to reach out for the increased volume necessary to justify the year-round wage guarantee. We shall then have a major raid on the part of one into the sales of the other unless we can create an increase in the total market for the product. The now familiar experience of the automobile industry has shown that such expansion of the total market can be attained, provided that the price comes down to the point where people who could not formerly afford the product now find it within their reach. Whether such a price reduction can be achieved without cutting into the wage rate depends upon the degree to which technological improvements can be effected so as to increase output per worker to the point where the high wage rate and lower prices can go together. Presumably, this increased efficiency must be achieved not only without reducing the number of workers on the guaranteed pay roll, but—if the contract is with a craft union—without radically reshuffling the skills required under the technological advancements.

The degree to which business managements and labor groups would be immediately confronted with such dilemmas of employment naturally differs from industry to industry. I am advised that in the case of companies making washing machines, where the job is largely one of assembling, direct labor cost represents only 15 per cent of the net value of the work. The TNEC mentioned some lines in which labor was only eight per cent of total product value. In shoes, Nunn-Bush has estimated that the wage bill represents 19½ per cent of total sales. According to the board chairman of the U. S. Steel, that company last year had sales of a little over two billion dollars, out of which it paid a direct wage bill of 957 million dollars. Obviously, in that case the commitment to a definite wage overhead has a different impact than it has in those cases where labor is a small fraction of total value.

Annual Wage vs. Other Bargaining Objectives

On the side of organized labor, it is clear that some choice has to be made between the gains that it may receive from the securing of an annual wage and the prerogatives that unions may have to yield

in return for the annual wage guarantee. For example, a commitment to pay wages through slack periods as well as peak loads, raises the question of averaging the weekly pay check. I have already pointed out two industries, electrical maintenance and clothing, where the workers have recognized a differential between a contract for hourly wages and a contract for an annual wage.

Some short-season industries start when others end. Such complementary industries would presumably share in the annual commitments to the extent in which their particular season is involved. Not all workers have the physical or mental equipment to operate under the same combination of part-year activities; any collaboration of industries is in constant flux.

It also seems almost inevitable that to sustain an annual wage commitment, some companies will have to enjoy the privilege of more freely moving their workers from operations that have slackened to those in which there is more work to be spread. This will reopen the question of seniority and its enjoyment within a department. If a worker is going to be used part of the time in a less skilled craft than that to which he is normally attached, he must expect to be paid on the basis of the value of the total work he performs rather than of the special skill which he follows when there is work in that skill. The establishment or industry may be confronted with the choice of insuring full employment to the smaller number of workers inside the charmed circle—those whom the firm can be assured of using—or of spreading the work with less than full time employment to a larger number of workers, including new and temporary workers who are available from other seasonal lines of work.

The mention of new and temporary workers brings us to the problem of freezing the labor population.

The development of new industries, new conveniences, new ways of doing things, has been predicated upon the ability to wean away both men and materials from older to newer lines. It has meant a continuous process of obsolescence matched by the birth of new industry. That type of progress has carried with it the element of gamble which has produced a net growth in wealth and living standards out of the rise and fall of business enterprises. If the day comes when a large fraction of the industrial population becomes attached to specific segments of industry as a fixed overhead, and new employes automatically acquire pay roll tenure after a trial period, the willingness to enter new ventures and develop new products must be weighed against the fixed obligation which is assumed with the hiring of new labor on top of old.

A labor force has a legitimate stake in learning what its firm or industry can do and is doing to reduce the violence of fluctuation in production and pay rolls. Some of the measures are within the power of the given management to attain; others may require changes in public policy—in fiscal, monetary, foreign trade, or social security

fields — which the industry should assist in bringing about. When a goal of improvement comes clearly into view, commitments to meet that goal are an eminently legitimate subject of collective bargaining.

We have already recognized in our unemployment insurance the existence of hazards in our economic system against which the system itself—and that includes all of us as consumers and taxpayers—must provide. There is room for reasonable men to differ as to the point at which it is better to forego higher stakes for security, or forego security for bigger stakes. While we may encourage the efforts of individual companies to reduce unemployment fluctuation, it would be courting disaster to place the bulk of industry more or less uniformly under a system of employment and pay guarantees which fail to consider the competitive problems peculiar to a given business and geographic area, both within the industry and between one industry and another. On the other hand, no reasonable management would take the position that it has no responsibility to contribute to the sense of stability of the working families whose labor turns out the company's products. Before an industry can safely embark on a program of general annual wage guarantees, it—and "it" obviously includes labor—must get some conception of what measures each firm will have to take to make good the guarantees; and whether these measures mean peace or war between firms and between industries. It must sense how the action of protection will affect consumers' choices, or the usurpation of the field by a competing industry. Until such dependable knowledge is available and has been thoroughly appraised, neither management nor labor can afford to commit itself to any decisive steps in the direction of industry-wide annual wage guarantees.

Finally, if, as, and when we have such knowledge, and we may be reasonably confident of our conclusions, we shall all—labor, management, and the consumer—have to decide how far we are ready to share, for the sake of wage stability, in restricting our elbow room of choice in buying, producing, and investment habits, which in combination make up our system of essentially private enterprise as we have known it to date.

The problems that have here been raised as in need of solution represent only a few of the ramifications that develop out of an attempt to fix or sweepingly disturb the conditions under which the dynamic equilibrium of our business structure is maintained. These factors must be weighed as each new step is taken. But the difficulties do not absolve us from active efforts of private and public statesmanship to move toward a fuller reconciliation of the indispensable urge to progressive change with the equally legitimate urge to reduce the uncertainties of employment opportunity. As the causes of violent fluctuations in our national income are successfully attacked, the objectives of the annual wage guarantee will be converted from a good resolution into a realized accomplishment.

ADDRESS

By

S. M. DU BRUL, Director

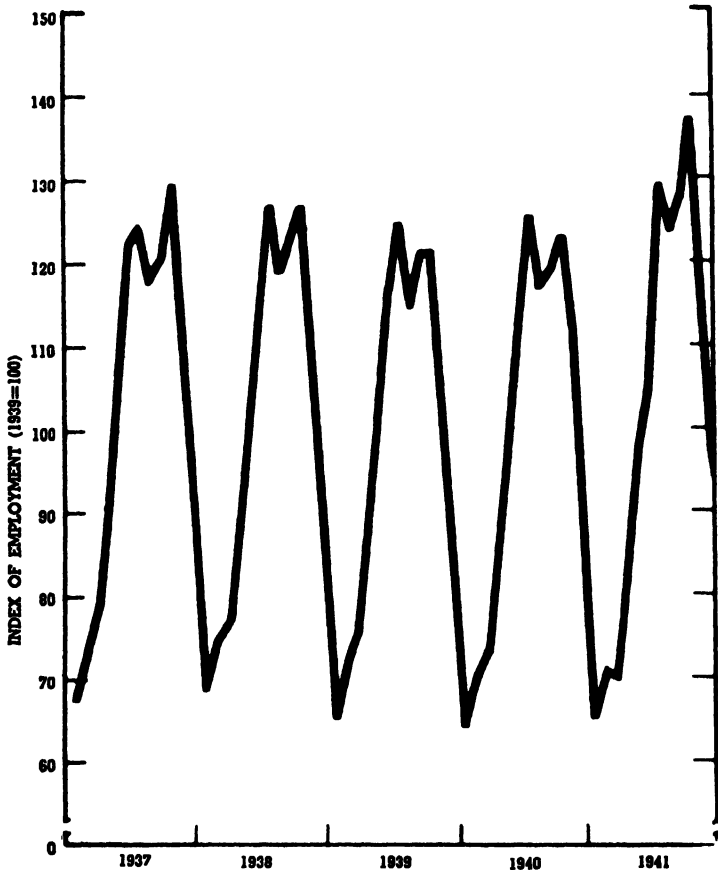
Labor-Economics Section
General Motors Corporation

The issue of guaranteed wages really arises out of the problem of unstable employment. Where employment is by its nature stable, this question of guaranteeing income really doesn't arise. Ernest Dale, writing on this subject in **Personnel** in November, 1944, commented as follows:

The guaranteed annual wage is not required during periods of great prosperity. It is not needed in firms with stable or expanding demand, or for long service employees. But it is most likely to succeed under such circumstances. The guaranteed annual wage is desirable during periods of depression, in firms with declining demand, or for non-permanent employees. But these are precisely the circumstances when it is least operative. Thus the tragedy of the annual guaranteed wage is that when it is least needed, it can be best applied; and when it is most needed, it can be least applied.

Let us consider some of the factors which cause unstable employment.

CHART I
SEASONAL NATURE OF FARM PRODUCTION
AFFECTS FARM EMPLOYMENT



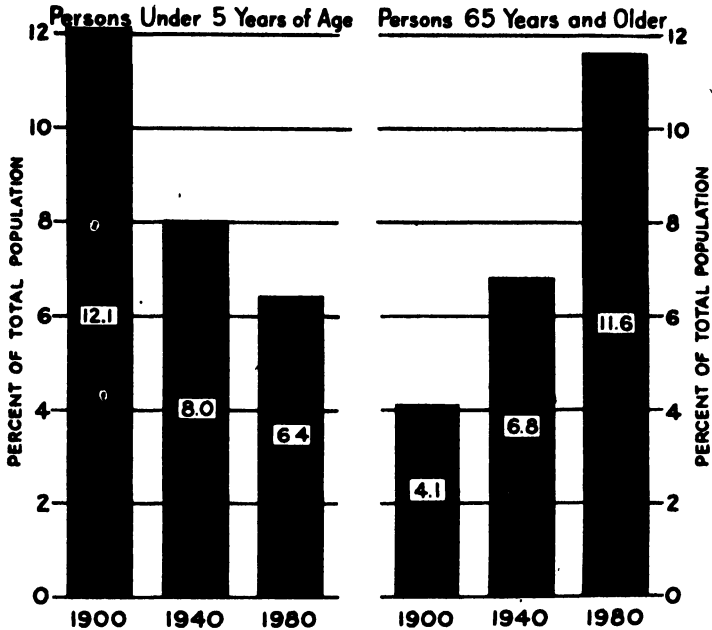
SOURCE: U. S. Department of Agriculture

The first factor that causes instability of economic activity seems to be the weather. The effect of the natural annual growing and harvesting cycle on employment is enormous and greater than in manufacturing. Chart I shows the fluctuations in employment in agriculture from month to month over a period of years. Employment in Great Lakes shipping presents about the same picture of seasonal employment.

So the weather is one of the greatest forces making for unstable economic activity. So long as the farmer must plant in the spring and harvest in the fall and so long as the Great Lakes continue to freeze every winter, the workers in these industries, as well as related industries, such as food processing, transportation, etc., will be subject to seasonal employment.

CHART II

COMPOSITION OF U.S. POPULATION IS CONSTANTLY SHIFTING BETWEEN AGE GROUPS (FORTY YEAR INTERVALS - 1900 THROUGH 1980)



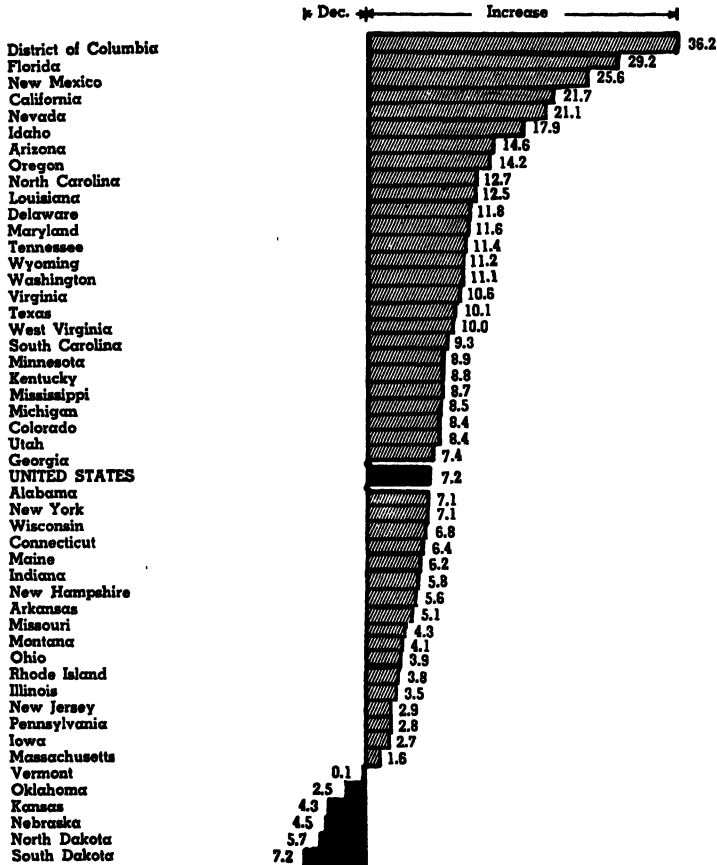
SOURCES 1900 and 1940 - Bureau of the Census
1980 - National Resources Planning Board

There are other natural factors that affect economic activity. Most people probably never thought of it but actually the change in the age composition of the population of this country is a very profound long-term factor of this kind.

Chart II shows the change in the proportion of persons under five years of age and over sixty-five year of age in this century. Obviously, a declining proportion of children and an increasing proportion of old folks is going to mean a relative reduction in the demand for baby carriages and kindergarten teachers and an increase in the relative demand for wheel chairs and nurses to take care of old folks, a large proportion of whom after age sixty-five will have to receive institutional care.

CHART III

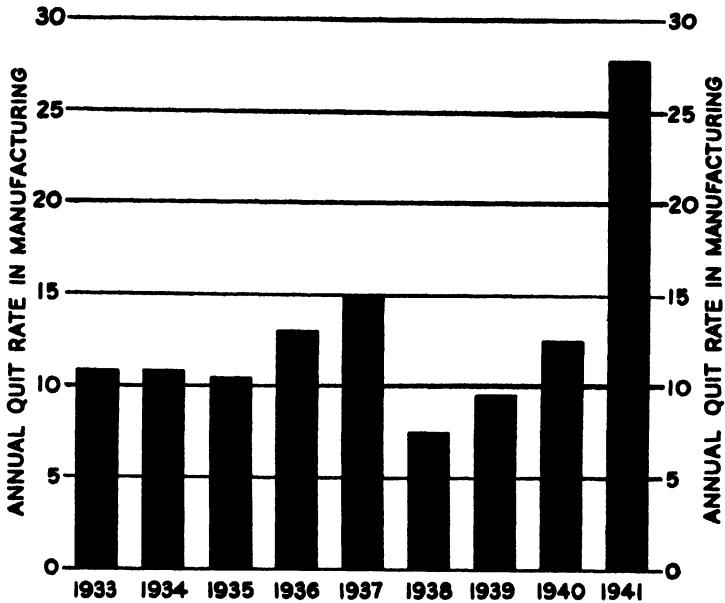
POPULATION CHANGES IN THE UNITED STATES 1930 — 1940



As a sidelight on this problem, it is interesting to note how population has shifted in location in recent years. The greatest gain in population between 1930 and 1940 (Chart III) was registered in the District of Columbia. Incidentally, in 1938, when the country's purchases of automobiles dropped 50 per cent from the previous year, there was no such reduction in the purchase of passenger cars in that community. The Socialists will say that the moral of this is that if we all were on the Government payroll, our purchases of automobiles would be steadier from year to year. On the other hand, the economic cynics will reply that only the commissars would then be able to afford cars at all.

CHART IV

**AVERAGE QUIT RATE FOR PRE-WAR YEARS
1933 THRU 1941 INDICATES THAT ONE OUT
OF SEVEN PERSONS QUIT HIS JOB EACH YEAR**

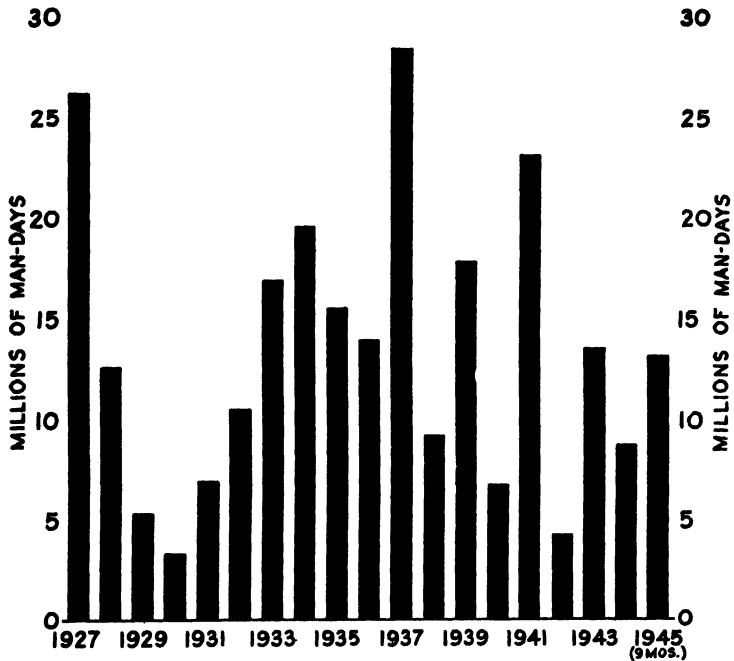


SOURCE: Bureau of Labor Statistics

Another source of irregularity of employment arises from our right to take better jobs. It should be noted (Chart IV) that the quit rate in manufacturing in 1938, a depression year, was not down much from the 1937 level.

CHART V

WORK STOPPAGES RESULTING FROM INDUSTRIAL DISPUTES CAUSE UNEMPLOYMENT



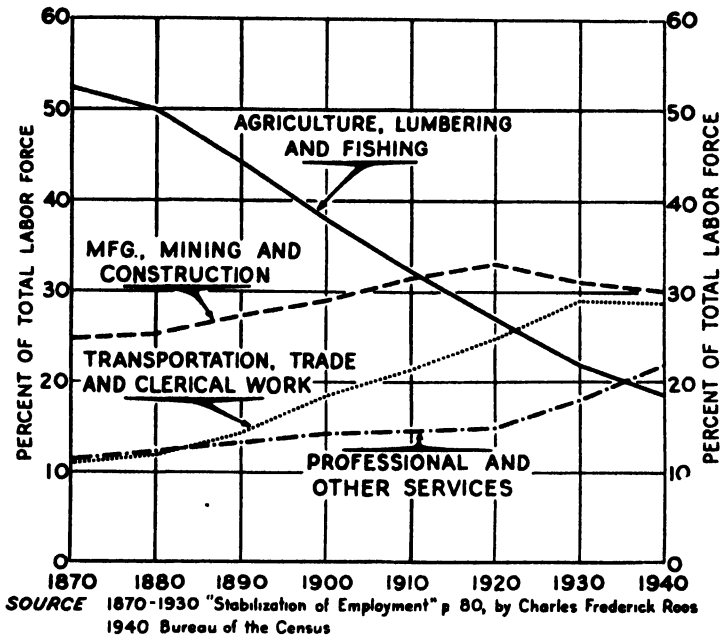
A source of sudden change in the current level of manufacturing is another of our sacred rights, namely the right to strike. Chart V shows the total amount of time reported lost due to labor disputes during the period from 1927 to 1944. It should be noted that this accounts only for the time lost by the participants and makes no allowance for the time lost by those whose activity, in turn, was curtailed as a result of these labor disputes.

There are also personal factors that have a very real bearing on the stability of employment of an individual. Irregular employment has always hit the most inefficient the hardest, whether their inefficiency was due to bad personal habits, such as laziness, drunkenness, or other deficiencies, or to their lack of training and ability. Industry has never found a way to stabilize their employment and Government is very apt to find it most expensive.

So much for the stabilization of the employment of workers who want to retain the freedom to take a better job, move, or strike.

CHART VI

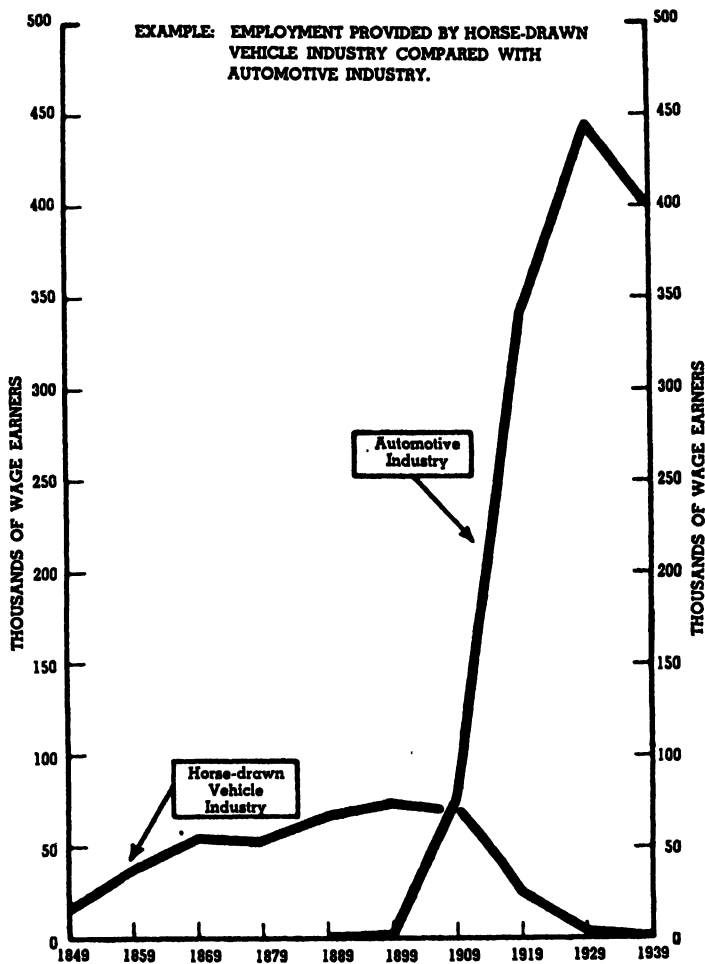
PERSONS IN THE U.S. LABOR FORCE ARE CONSTANTLY SHIFTING BETWEEN INDUSTRY GROUPS



Another source of change in the economic activity arises from the changing nature of our economic society itself, with the declining importance of agriculture and the rising importance of manufacturing and the service industries. In this connection it is interesting to point out that few people realize how much progress we have made in spite of all our difficulties. One hundred and fifty years ago at least 80 per cent of the population was engaged in farming and related pursuits. In other words, it took four people on farms to feed themselves and supply the food and other farm products required for one extra person. He, in turn, divided up his production of manufactured goods or services with four other people. Today the situation is reversed. One person in agriculture is able to supply himself with all his needs of food and agricultural products and at the same time supply the needs of **four other people**. They, in turn, have very much more of their own production for their own use and for the use of the one man in agriculture who is feeding them. Chart VI illustrates how these changes appear in retrospect. Although it is not brought out in the chart, it is interesting to note that the most rapidly growing occupational classification in the United States in recent years has been in recreation, which is included in the Professional and Other Services line on this chart.

CHART VII

NEW PRODUCTS CREATE EMPLOYMENT



Source: U. S. Department of Commerce, Bureau of Census

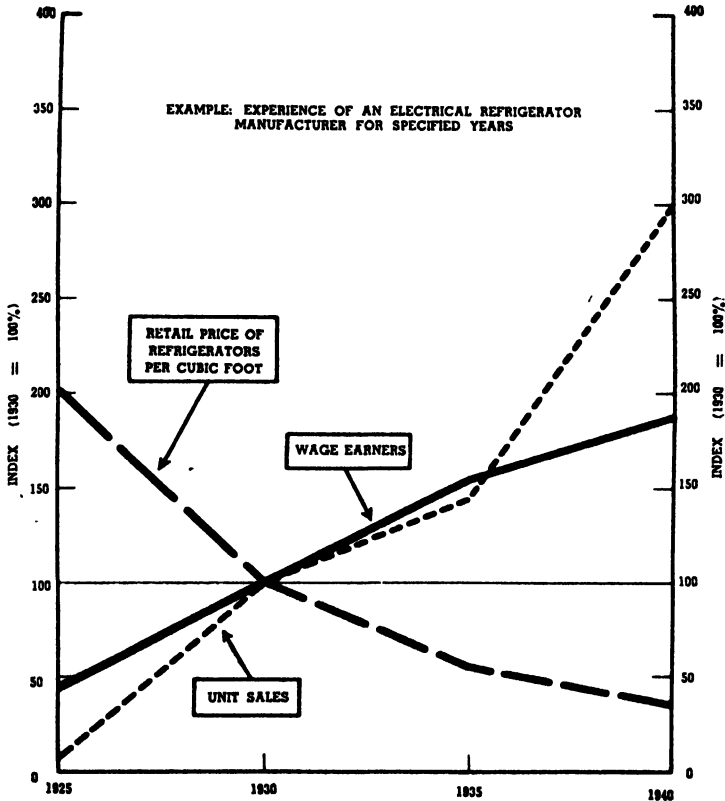
Effect of Progress

New products, new machines, and new materials necessitate changes in employment. The automobile was a product of this kind and it is interesting to contrast the history of employment in the automobile industry and in the carriage industry, as is shown on Chart VII.

The automobile, radio, nylon, plastics, synthetic rubber — in fact, the whole host of new products — while bringing increased comfort and employment in the aggregate, have nevertheless necessitated changes in employment for particular workers.

CHART VIII

LOWER SELLING PRICES INCREASE SALES AND CREATE EMPLOYMENT



NOTE: UNIT SALES INDEX COMPUTED FROM DATA PUBLISHED BY
NATIONAL ELECTRICAL MANUFACTURERS ASSOCIATION

The history of the mechanical refrigerator industry is another good example of competitive progress. In this industry, competition has resulted in constantly reducing prices and improving quality. As a result (Chart VIII), employment has risen rapidly and the use of the product has been spread to an increasing share of the population.

Monopolies

Monopolies can give more steady employment than employers in highly competitive industries. Employment in public utilities is more stable than that in competitive manufacturing companies only because we, as consumers, have no choice in the matter of buying their products. We either buy our water and electricity, gas and telephone service from the utility that has the monopoly or we don't buy it at all.

In many trades and industries, unions, sometimes with the active cooperation of their employers, have accomplished the same result for their members by restricting their membership and refusing to permit anyone not a member of the union to work at the trade. That helps the employment and income of their members very greatly, but the trick will fail when everybody tries the same game. Then we will have heavy and increasing unemployment at high wage rates.

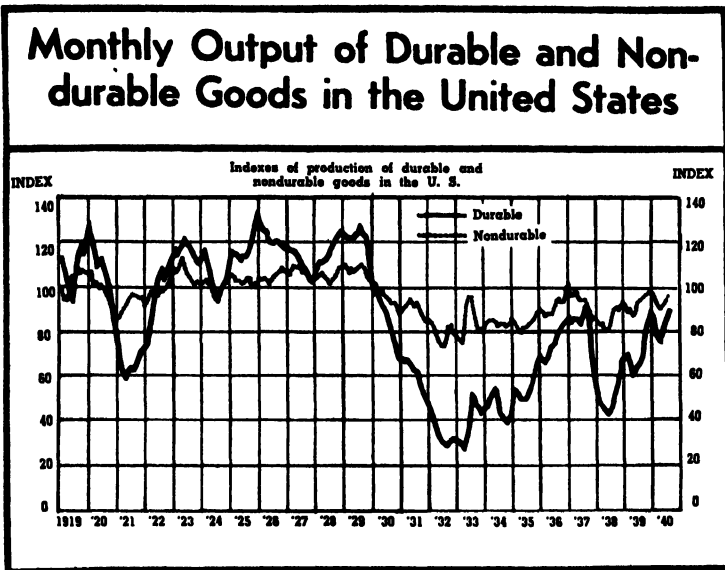
Tariffs

Through high tariffs some industries have been guaranteed a steadier market for their products for extensive periods of time. Thus their workers obtain more security but, of course, at the expense of the consumers who are thus prohibited from buying cheaper products produced by foreign workers. There are many other ways by which Government has favored some with stability at the expense of others, but they all accomplish this purpose by interfering with or abolishing the freedom of some producers and consumers.

Taxes

Taxation is a very effective means of providing stabilization of employment for some people because we, as consumers, have no choice as to whether we will pay the taxes. As a result, the Government can give stable employment to many of its employes, — for example, school teachers have very stable employment because the Government gives them a stable market for their services by forcing children to go to school and compelling us to support the schools by taxes.

CHART IX

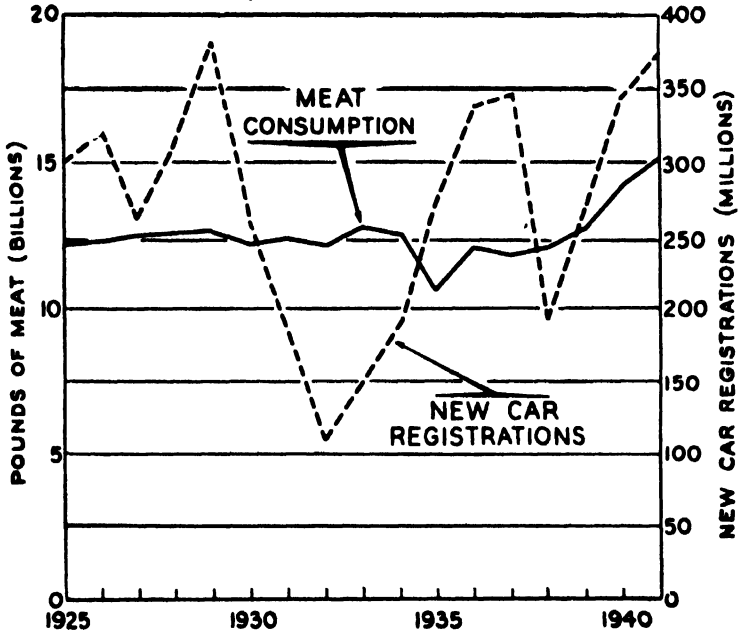


Durability

The production and consumption of so-called non-durable goods is so much more stable than that of durable goods. Chart IX illustrates how much more widely industrial activity varies in the production of durable than in non-durable goods. The durability of these goods permits their users to postpone the purchase of replacement goods almost indefinitely. This was forcibly brought out during the war when the Government stopped entirely the production of practically all consumer durable goods without any serious consequences other than that of temporary inconvenience. Yet it became necessary to increase the production of almost all non-durable goods, including food. We can postpone the purchase of an automobile for years but we cannot postpone the purchase of food even for a day or shoes or clothing for very long periods. The absolute necessity of a current supply of many commodities is well illustrated by the effect of the present stoppage of coal production which threatens to strangle the entire country. In contrast, our recent strike in General Motors was not at all serious from a public point of view because it simply meant a few months more delay in satisfying a demand that had already been deferred for almost four years.

CHART X

**NEW PASSENGER CAR REGISTRATIONS VS
APPARENT MEAT CONSUMPTION**
(ANNUAL DATA)



People buy and use much the same total quantity of food from year to year and content themselves with complaints about the high price of meat while continuing to eat more at the high price than they seem to have done in periods of low prices.

Chart X shows the difference between the apparent meat consumption in the United States and the rate at which the public buys new passenger automobiles.

CHART XI

**PRODUCTION OF BOOTS & SHOES
COMPARED WITH PASSENGER CAR
PRODUCTION**

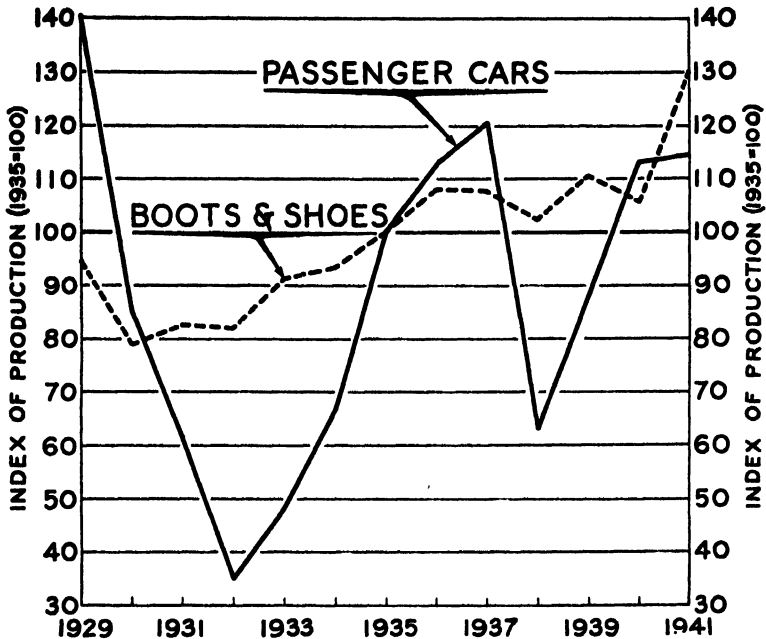
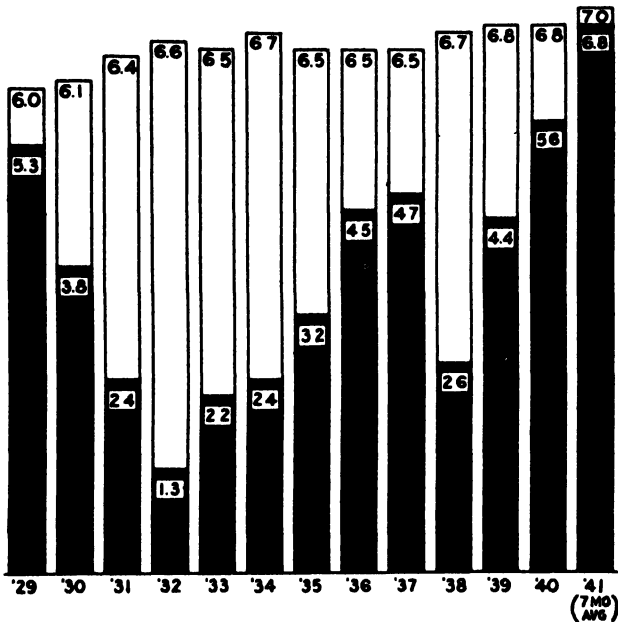


Chart XI contrasts the production of boots and shoes with the production of passenger cars.

The underlying success of the Proctor & Gamble plan of guaranteed employment rests upon the stable rate at which we, as consumers, employ our wash cloths. Good years and bad, our inclination to maintain a constant state of cleanliness does not seem to fluctuate. If the consumers of the United States would buy automobiles at the same rate at which they buy and use soap, meat, and shoes, the stability of employment in the automobile industry would certainly be improved.

CHART XII

STEEL PRODUCTION AND CAPACITY IN THE U. S. MILLIONS OF NET TONS 1929-1941



As a consequence, the steel industry is highly irregular, as is shown in Chart XII.

Consumer Freedom of Choice

Freedom of choice on the part of free consumers creates irregular employment in many ways. The factor of style is one of them. Without any warning, consumers, particularly women, shift their buying habits and quit buying a product which yesterday may have been in great demand. There is nothing as useless and unsalable as a woman's last year's hat. The style factor causes very rapid shifts in employment between producers, particularly in the women's clothing industry. Contrary to popular belief, successful new styles this year are not necessarily produced by the same producers who were successful last year.

This results in shifts of workers from one producer to another. It also, incidentally, accounts for the concentration of the ladies' garment industry in a few centers insofar as style goods are concerned. Obviously, producers put their factories in markets where they can get skilled help when they need it in a hurry.

Traditionally, Americans have believed that private production by private citizens will be more efficient and more satisfactory than a system of production controlled by politicians. This arises out of our fundamental political beliefs that it is of the essence of a free system that we citizens, as consumers, shall be free to make our own choices of economic values, that is, how we will earn our living and how we will spend our incomes. Accordingly, we have had a balanced political and economic system in which all citizens, as consumers, are the ultimate dictators of the success or failure of the various businesses which cater to their wants. As consumers, we vote daily for the success or failure of the different businesses that seek to serve us and our votes are recorded by our dollars in the cash registers of the markets of the nation. No other system is compatible with our principles of political liberty for when a man is no longer free to earn and spend his income and his time, wisely or foolishly as he wishes, his remaining freedom is of little or no consequence.

This system of free consumer's choice as to what we will buy, where we will buy it, and whether we will pay the prices asked, has its drawbacks. As consumers, we are all frequently irrational and tend somewhat to run to extremes. This causes considerable dislocation in employment.

Within the limits of this competitive system, and subject to this frequently erratic consumer buying, production is planned by the managements of each business to meet what they have some reason to believe will be the demand for their products, in many cases months in the future. Managements must make forecasts of probable consumer desires and buying power and set their production schedules accordingly. When a management plans badly, it loses a great deal of money. While it is possible to estimate with varying accuracy what the total market for certain products will be for short periods in advance, we must not forget that the public's preferences may shift rapidly.

There is no way of making consumers in a free country buy one product when they want another. Therefore, so long as consumers are free to buy one make of product in preference to another or, on no notice at all, to postpone their purchase entirely, the matter of setting production schedules will be one of cut and try, with someone in each concern having his hands on the throttle and the brake all the time. It is important to keep this point in mind, for even in a socialistic country the government would have just the same problem of planning production **if the consumers were left free as to the expenditures of their incomes.** Thus, complete stabilization necessarily must begin with the planning of the consumer — what he will take, when he will

take it, and how much he will have to pay for it, whether he wants it at that time or not.

But even so, businessmen can do considerable about this problem in their own concerns. The methods for reducing instability of employment which have been used by various manufacturing companies may be listed as four general headings:

- (1) Production policies
- (2) Pricing policies
- (3) Merchandising policies
- (4) Personnel policies

We will discuss each of these in turn.

(1) Production Policies

- A. **Produce at uniform rate, storing surpluses in off seasons.** If the consumer insists on buying only in certain seasons, the manufacturer doesn't necessarily have to produce only in those seasons. For example, Eastman Kodak, Proctor & Gamble, various candy companies, and many others produce on a year-round basis and meet the peak demands out of stock. Obviously this procedure is limited to products which can be stored at low cost without fear of deterioration, which have no style, and where the volume does not fluctuate too widely from year to year.
- B. **Produce or distribute in the same plant with the same equipment and same labor force products which have different selling seasons.** The coal and ice dealer is a classic example of this. Winter and summer sporting goods is another.
- C. **Standardize the product or parts to permit building for inventory.** Proctor & Gamble has popularized its standard brands and can therefore store these safely. The standardization of automobile parts permits storage for future replacement parts sales.

Table I contains a few examples of the industries which have simplified their lines, according to the Department of Commerce:

Products	Reduction in Varieties	
	From	To
Milk bottles and caps	49	4
Blackboards (lengths)	78	6
Paint brushes	480	143
Coated abrasive products	8000	1865
Nails and tacks	428	185
Shovels, spades, and scoops ..	5136	1161
Common brick	75	2
Wheelbarrows	125	27
Grinding wheels	715200	254400

- D. **Introduce new equipment gradually.** The telephone company introduced dial telephones without creating unemployment.
- E. **Subcontract peak requirements.** All industry subcontracts much of its work and peak loads are frequently spread over a great many producers.
- F. **Refuse to meet peak demands.** All employers must expand cautiously and seldom meet the absolute peak demands.
- G. **Put off maintenance work to slack periods.** This is common practice in all industry.
- H. **Sidelines.** Welch Grape Juice Company added jellies. Beech-nut Packing Company filled in with food products.

(2) Price Policies

Cut prices in off seasons. Coal sells cheaper in summer. Winter coats are cheaper in summer. Long distance telephone calls are cheaper at night. Automobile dealers do this, usually through the used car allowances.

(3) Merchandising Policies

- A. **Secure advance orders from dealers or consumers.** Automobile dealers order heaters in July. The Shakespeare Company of Kalamazoo persuaded their dealers to order fishing tackle in the fall.
- B. **Develop new uses for the product.** The oil companies promoted oil heating home units, thus offsetting the let-down in gasoline sales during winter months. Fleischmann convinced people that yeast was good to eat on a year-round basis.
- C. **Sell direct to consumer.** Proctor & Gamble eliminated wholesalers and dealt directly with retail stores to level out production. Nunn-Bush operates many retail stores. Real-Silk sells directly to consumers.
- D. **Introduce new products or new model when demand falls off.** Many companies hold back product changes for slack periods.

Baush & Lomb Optical Company, Dennison Manufacturing Company, Bird & Son, and Germanow Simon Machine Company have successfully followed this policy.

- E. **Change consumer buying habits.** Coca-Cola used to be a summer drink but through advertising people were persuaded to drink it year-round. Department stores encourage people to shop early and avoid the Christmas rush so they might stabilize employment for themselves and the industries supplying them.

(4) **Personnel Policies**

- A. **Working longer hours in peak seasons.** In seasonal industries, irregularity of annual employment can be avoided to a great extent by working the regular employees longer hours in peak seasons, thus avoiding the necessity of hiring temporary employees who must be laid off. However, the Wage and Hour Law discourages this practice by requiring the payment of overtime wages for all hours in excess of forty a week. Thus employers are forced to hire additional workers to meet peak loads. Under many union contracts, these temporary workers quickly acquire seniority rights. Therefore, when the hours of available work decline in the off seasons, the income of the regular workers is sharply reduced since they must share the work with the temporary workers who have acquired seniority status.
- B. **Train workers in different skills.** The McCormick Company of Baltimore is a good example of this policy. Many of their production workers can also be used as typists or salesmen.

So much for the methods available to employers for minimizing instability of employment in their plants.

Coming directly to the problem of the so-called guaranteed employment plans that have received so much publicity, the Nunn-Bush plan, the Proctor & Gamble plan, and the Hormel plan have received the widest publicity. These plans differ radically in many respects.

The **Proctor & Gamble** plan is a guarantee of employment to employees of longer service, terminable, however, at the discretion of the company.

The **Nunn-Bush** plan guarantees that the aggregate factory payroll for each year will equal 20 per cent of the wholesale value of shoes produced and that 595 members of the working force will not be laid off. The balance are subject to layoff if there is not enough work to provide satisfactory earnings for the 595 older service employees. Under this plan, the factory working force works on commission. The workers agree to work all the hours necessary to get out the production and to accept 20 per cent of the sales value of the product as wages. Thus there is no fixed hourly rate nor is there a fixed annual

income. The assurance in this case is that the included group will get 52 pay checks for the year, although they cannot tell exactly what the size of those checks will be from month to month.

The **Hormel** plan is a guaranteed minimum income plan for the working force that reasonably can be expected to be employed during the year. In return for this guarantee of at least thirty-six hours' income per week at base rates, the employees agree to work up to fifty-three hours a week without overtime. The plan, however, is on a piece-rate basis and employees who produce more than the standard task for the hours they work receive bonus earnings for that production. While working very short hours or laid off, they receive only the guaranteed pay at base rate.

There are several important observations about all of these three plans, however. In the first place, none of them really guarantees the working force pay for not working, with the possible exception of the Proctor & Gamble plan. Under this plan, however, it has never been necessary to pay people for not working. Under the Hormel plan, any payment not earned in one year is charged against an employee's bonus earnings in the next year, so that the company's financial resources simply operate as a reserve to stabilize the employees' income at the minimum level.

In the second place, all three of these companies are engaged in the production of consumer non-durable goods which are purchased in small quantities systematically so that the business cycle does not operate drastically in these industries.

In the third place, and most important of all, under all of these plans temporary employees may be hired to meet peak loads, but all of them are laid off before there is any impairment of the employment or income of the protected group. It is significant that there has been no guaranteed employment plan that operated for any considerable length of time in a durable goods industry.

Furthermore, it is also significant that, by and large, the labor organizations do not look with favor upon any of the three plans mentioned, largely because security for the older service employees is at the expense of the employment of temporary employees who must take the full burden of unemployment before the protected groups are affected.

For example, the UAW-CIO at their recent convention had a resolution which is still pending before their Executive Board that would prohibit any plan which would benefit only a portion of the workers in the plant or industry on the ground that it "would have the effect of dividing the labor movement into an employed aristocracy and an unemployed group which paid the price for the security which the others had won" and that any annual wage plans shall be approved only if they cover all seniority employees and offer guarantees of annual payment at full UAW-CIO hourly wage rates and without

sacrifice to overtime or other standards of wages and working conditions established by the UAW-CIO.

Income Stabilizing Plans

In contrast to the three plans which we have discussed which guarantee income or employment in some fashion, there have been a number of other plans which, while not guaranteeing any stabilization of employment or income, assist the employees in leveling out their incomes between periods of high and low employment. These plans are of two types. First, those in which the employees save a portion of their earnings in periods of high employment to be drawn upon in periods of reduced employment or to supplement their unemployment compensation. Plans of this type usually involve an employer contribution as an inducement to the employees to participate in the plan. In this classification are the Sears Roebuck plan, the International Harvester Company plan (terminated at the insistence of the Union), and the Badger Carton Company plan.

A second group of plans of this type are those which do not require advance savings by employees, but the employer makes wage advances against future earnings, which together with unemployment compensation, will assure the employees of a minimum weekly income for a considerable period of time.

Under these plans, the employees repay their wage advances to the employer from their earnings in subsequent periods of full employment. In effect, these plans use the employers' financial resources as a sort of fly-wheel or balancing force to compensate the irregularity of earnings of the individual employees. In this group are the Armstrong Cork Company plan and the General Motors Income Security plan which was operated between 1939 and 1941.

These plans, together with unemployment compensation, go a long way toward achieving stability of income with irregular employment and from that point of view are to be recommended. It should be noted, however, that none of them provides for paying people for not working.

Further experimentation along these lines is recommended. The mere existence of such plans, even though not extensively utilized, contributes greatly to improved employer-employee relations and show the employees tangibly that the employer is really interested in their welfare and is doing all that he can to alleviate the effects of unstable employment on the workers' income.

It should be emphasized, however, that in all plans of all types the assurances are restricted to the longer service employees and are not generally applicable to all employees, thus again recognizing that a certain amount of peak employment is inevitable and that all employees cannot be protected against economic hazards to the same extent.

There is an interesting development in this connection, as a result of increased unemployment compensation benefits, together with the income tax, particularly for single men and married women without dependency credits. Unemployment compensation is tax-free income. Consequently, if the guarantee of income or employment is low, say, 24 or 30 hours' pay, it is more attractive to many employees to be laid off and receive unemployment compensation than to work three or four days a week for a net pay check that is little, if any, larger than the unemployment compensation they would otherwise receive. This is further aggravated by the fact that laid-off workers then work in casual employment not reported either for income tax or unemployment compensation purposes, such as domestic day labor, cutting and selling firewood, etc. This trend makes it much more difficult to develop any guaranteed income plan that does not assure practically full wages.

The purpose of this presentation is primarily to lay the foundation for discussion rather than to pass judgment on the merits or demerits of any particular proposal.

In summary, then, the demand for guaranteed annual wages arises out of instability of employment. Instability of employment, in turn, arises out of natural and personal forces on the one hand, and economic and social forces on the other. Part of it is a result of our essential freedoms and the varying economic impact of these essential freedoms in different industries.

The problem is more acute in durable goods than it is in industries that produce everyday essentials which must be replaced at very frequent intervals, and yet it is in the industries in which the problem is most acute where the solutions are most baffling. There is much that managements can do that will pay in the long run. There are certain things, on the other hand, that employees must reconcile themselves to if further progress is to be made, including a willingness to work longer hours in periods of peak demand so as to avoid the necessity of hiring temporary help and a willingness to accept alternative types of employment so as to enable the employer on the one hand to meet his customers' requirements and the needs of production while at the same time he is attempting to stabilize the employees' employment and income. The traditional opposition of labor unions, particularly to this latter requirement, will make it very difficult for many employers to do very much more than they have been able to do in this regard.

ADDRESS

By

BORIS SHISHKIN

Economist — American Federation of Labor

I am glad to have the opportunity to come back to this very important, and, in a sense, unique discussion group where I had such a pleasant visit three years ago, and to meet some of my old friends and associates who took part in the meeting at that time. I am in a slightly greater quandary this time, mainly because of those who just preceded me in this discussion. My difficulty lies in having just listened to two soul-mates; one was a free soul once caught in the cage of bureaucracy in the N. R. A. in 1933, and he is Mr. Du Brul; the other was a free soul, caught in an academic cage at the Brookings Institution, and that was Dr. Kaplan. I have shared both cages with each of them.

Although the very precise and detailed analysis that you have seen and heard is extremely illuminating, my main difficulty is that there has been mapped out a sort of area of disagreement in which I am presumed to take up the cudgels on the opposite side of several things. At least there is a presumption that I have to take up the cudgels for socialism, for government bureaucracy, and the cudgels for the idea of generally putting American industrial management and the free enterprise system in a straight-jacket. This is an impossible presumption as far as I am concerned, because neither by my personal choice and conviction, nor by the function which I have assumed here, speaking for labor, does that hold in anything I have to say.

I do have a few questions implied in what Mr. Du Brul has presented here. I was extremely interested in the charts that he has shown. You will recall that the first chart showed the extreme fluctuations, the great ups and downs, ranging from 70 to 140 percent, in the production of food products, and he pointed out their dependence on the weather. In that connection, he also pointed out that there was a long trend shown by another chart, in the shift in our productive population from farm communities to industrial communities. He showed some of the relationships and illustrated some of the instability demonstrated by our production system in the past. He showed that there had been vast shifts over a long period of time in what people were engaged in as a part of our production.

The chart presentation ended at the point where I wanted to look back and say to the operator in the back of the room, "Next slide, please." That slide would have shown whether or not Mr. Du Brul was really indicating that he was underwriting instability and all that instability implied, or whether he was telling us that there ought to be a search for ways and means of doing something about it.

He has not told us that, and that is what puzzles me. I do not know whether the conclusion of his whole presentation was merely

that this is how things have been, that this is the way the economy has operated in the past; or whether his lesson to us was that this is indeed the ideal way. Or perhaps he meant that after the dislocations of the war are over, it is our implicit duty, as underwriters, to come to grips with the complications of each particular situation. If so, I certainly would like, in the discussion, to have an indication from him as to what is the policy course and perhaps even the political course—he relied on that heavily—that might be employed to reduce instability. Certainly it is not my purpose here to clear up the political over-tones and connotations of this situation, but I think that it is a very vital matter because it affects by and large all of the labor movement in the United States.

The trade union movement in the United States, with a few minor and unimportant exceptions, is dedicated to the proposition, that the voluntary and free process of adjustment of wage standards, and the perfection of wage standards as a function of productivity and as a function of income, should be the business of labor and the employer, and should not be the business of any outside intervenor. On the strength of that, it is almost imperative for us in any such discussion, to clear away any doubt that as long as this is the choice, and so long as the trade union movement is performing that function, the alternative of intervention by the government is ruled out. If that were not the choice, and if those things are not being worked out through free and direct relationship between the employees and their representatives, and the management, then the alternative of intervention would be forced upon both labor and management; but only over very strong resistance on the part of both management and the trade unions. For trade unions are—no matter what is said—the bulwark of the private enterprise system. A very vital part of that system is collective bargaining, in which the prerogative for the adjustments of standards for the wage earners is placed in the chosen representatives of the workers, who are employed by the management.

In reviewing the past history and the trends as we have reviewed them—and in that sense, Mr. Du Brul's introduction was a most useful one—it is important for us to bear in mind the one essential, crucial point on which the whole problem rests, and that point is the position of the wage earner whom management employs, with respect to that very thing that Mr. Du Brul described as freedom of earning and buying.

I frankly do not know how that freedom of earning and buying can be defined. We have pretty well studied the experience of what the wage earner has received in terms of his income, and the extent to which the wage earner is and was free to earn that income over a period of years. In recent years, just before the war, we have had a clear indication as to what that wage earner's status was in terms of his ability to earn and his ability to buy.

At this point, when we are entering into an era of self-reliance in industry, business, and trade, it is perhaps wise to give some thought

to the implications of the status of the wage earner in our economy, in terms of his reliance on his income and in terms of his ability to purchase.

I mean a very simple thing. Under a medieval system of self-sufficient production, in the supplementary crafts that were producing certain things, a man—whether it was the man who made the candles, or the man who made the shoes, or whether it was the man who wrought the iron goods that were bought from time to time—made his choice, or the choice was made for him, to enter a trade very early in his life. His dependence on that trade and on that set of skills was a lifetime dependence. Society knew and understood that the standards that were building up, either through the kind of organization that existed then in the form of guilds, or without them, included a standard of dependency on a particular income covering a life span.

Now, in the modern industrial society, we do have ramifications of that problem, but we do not have the recognition of it. A wage earner in the United States is a man of particular qualifications or particular skill or particular association with a particular type of work, but he lives in an economic organization which, as you have seen, is subject to very wide changes and very wide fluctuations. For example, if he is a steel worker, there is no real assurance for him that this is going to be a lifetime occupation for him. He has one way of departing from that, and that is by way of other opportunities. He can leave that particular performance and that particular job, and gain other skills and other knowledge and go to other trades and gain a better income. But to the extent that he is a steel worker, he is wedded over a long period of years both to the standard of income that the work, which he contributes to the production of steel, yields to him, and to the uncertainty of the extent to which that particular work can support him over a period of years.

It is useful for us to remember what happened to our typical workers in the years intervening between the two wars, what was their peacetime experience. The automobile workers, who have increased so greatly in number, as we have seen here, have gone through a period of rapid rise in earning standards in the twenties and thirties. In the highest wage year, which was 1939, the annual income of the automobile worker was around \$1,600 a year. In iron and steel the average annual income, in the highest peacetime year, was \$1,350. In many other industries the average annual income was considerably lower than that. In paper and paper products it was \$1,200 a year. In leather manufacturing, which constitutes a large segment of our economy and includes boots and shoes, luggage and other leather products, the average per capita income of workers was \$895 in 1939, which was the highest wage year. In the major industrial group—textiles and textile products—the average annual income in 1939, the highest wage year, was \$835; that was what the average textile worker earned in 1939. So you see that there was a great disparity in the income standard of these various groups of workers. These annual

incomes were earned by them in the highest year of the period intervening between the two wars.

Now, let us look at the steel worker and his year-to-year peacetime experience. Between 1929 and 1932 steel production was very drastically curtailed. Between 1929 and 1932, the change was so drastic that out of every hundred steel workers employed in 1929, only 45 were working—were holding any kind of employment—in 1932. In the period of from January 1, to December 31, 1932, only 45 out of every hundred steel workers held jobs of any kind, and for those who held the jobs—and leaving aside the 55 steelworkers who were completely out of work that year—the employment was very short in duration. The average per capita income of those employed in the iron and steel industry, forgetting about the unemployed, was \$187 a year! That experience was not limited to 1932. Steel workers knew unemployment and poverty throughout the depression. But to the steel worker and his family, this situation was extremely important, in the years of the recovery as well, because when he made \$1,350 in 1939, he was still meeting the deficits accumulated in the depression years. The indebtedness, the lack of nourishment and medical care, and the lack of proper care for his children, that accumulated during these years of depression and privation are always felt for a long time to come.

So that the basic problem of the income standard, and the relationship of the worker to the flow of goods, is not confined to any limited period of time, such as the period of twenty-six weeks under one formula, or three months under another, or one year. If it is carried out to its logical conclusion, it involves the question of the productive life span of a wage earner. It involves his ability to earn a full standard of living, to retain full employment in order to assure the kind of standard, that, in the mind of the wage earner himself, is the American standard of living to which he aspires.

Let us take home ownership. In the thirties, we built a lot of homes for sale and presumably marketed them for home ownership, but the demand, despite the acute shortage of houses, was for rental housing, which was not supplied in sufficient quantity. The reason for that was not only the fact that a great many families had burned their fingers on home purchasing in 1932, but also the fact that a house is built on a twenty or twenty-five year basis of indebtedness. Under the F.H.A. twenty-five year amortization plan, a wage earner is paying for a house over a period of twenty-five years. But does he have an income assured to him over a period of twenty-five years? That is the ideal, and people think of a worker, who is buying a home for himself and his family, as paying over the entire period of amortization, and eventually owning that home and living there. In reality, that is not the case. The turnover in possession of the average house in the sales market fluctuates between eight and ten years. In other words, most people who are buying homes give up the attempt before they become full home owners. The partial home purchasers give up the buying of

that home, and turn it over to someone else because they cannot make the grade. In the process they give up their investment in the home, become tenants, or must begin all over again, the purchase of another home.

In the objective of setting up a goal and setting up a standard, we have blocked out an area of concern with the broad general problem of relative economic security. It is not limited to the objective of a guaranteed annual wage, as such, but extends to the broader objective of assuring the maximum attainable stability of employment and income for the worker, during his entire productive life span.

Several years ago, we undertook a study in order to try to evaluate this problem. The idea of exploring this field does not originate with us. As a matter of fact, the idea of exploring this essential, crucial problem of the productive life span of the wage earner was initiated by Mr. Taylor, the founder of the Taylor Society. That is the central issue as he well saw, yet it has been almost completely ignored all this time. It constitutes the broad picture of the goals and objectives toward which the wage earner, as an economic unit, is striving.

It will take at least four or five years to round out the information already available. We already have sample indications of what has been the wage income derived from employment on the peacetime basis—and, of course, the wartime distortions will modify that. Our sample study has been based on actual payroll information and individual worker histories, of workers picked from payrolls. This study has indicated within a sample of a number of diversified industries in the East, that the life span of continuous, full-time productive employment of the average worker is only 16 years. In other words, if you eliminate all the periods of temporary unemployment of a variety of kinds—frictional unemployment, sickness, lay-offs that are due to the readjustments in production, seasonal unemployment, and cyclical unemployment—the period of actual full-time employment of each worker amounts to only 16 years. Contributory to the shortness of the productive life span are some undesirable employment practices, especially discrimination against the older worker, which also fluctuates from year to year. I do not know what the final figure will be for the entire United States and for the entire range of industries, but there is certainly an indication of the narrowness of the earning standard of the worker. It is certainly plain that attaining the ideal of home ownership and the standard of living that goes with it — the ability to buy all things that are produced for the normal completion of a full productive life cycle — would give us a greatly widened base for production of goods of all kinds.

Now, that is the goal, the objective toward which we must strive as economic realists. The acceptance of this goal should help us in dealing with the problems of specific types of production, in which specific groups of workers are involved, and the adjustment to the changes which occur as the result of technology and market fluctuations.

Today the trade unions are, to a much greater extent than is generally recognized, a part and a party to the study of management problems. There is great promise in that. As a matter of fact, even as recently as 1933, there were only a very few isolated areas in which trade union leadership was equipped to look at the management problem with the facts, figures, and background that would make the examination of that problem an intelligent one, and would enable them to make a real contribution, not only to the details, but to the problem as a whole. Today we have that to a growing extent, and in that growth, there is again a promise of a relationship that is direct between management and organized labor, and that does not invite outside intervention.

Many proposals have been put forward for guaranteed annual wage plans. Some of these proposals have been put into effect. There are numerous instances of unions that have attempted to meet the problem personally at the collective bargaining table. Growing out of this experience is a recognition of the fact that the annual wage formula is really an engineering assignment. It is an engineering problem. The complexity of each business or individual operation, and of each area of industrial production, yields a wide range of differentiations. I do not think that anyone can reasonably expect the emergence of a single guaranteed wage plan that will be either workable or have general acceptance by labor or management. It has to be fitted to the particular characteristics of each particular industry and to the particular characteristics of each particular industry and to the particular characteristics of each particular firm, yet despite all these limitations, on a very small scale, considerable successful experience has already been accumulated.

The A.F. of L. had several plans launched early in the twenties. One of the pioneer plans launched by the International Ladies Garment Workers Union in 1923, was not a full annual wage; it was a forty weeks guaranty. The plan was set up in 1923, and was carried on until the garment industry was hit by the depression and was no longer able to sustain an adequate volume of production.

In the adoption of annual wage plans we cannot be Utopian. Any formula that has been worked out for a particular plant may be wholly inapplicable to another. As a matter of fact, I think today, that those of our union representatives who have met, and discussed with management a variety of possible guaranteed wage plans, recognize that, at this stage, it would be futile for any such plan to claim that it can meet the economic pressure of the business cycle.

There is no annual wage formula or any annual wage plan which can itself and apart from the entire problem of industry, take care of the workers in a period of a depression of unforeseen duration. That simply is not in the cards. But those proposals which have been accepted and which deal primarily with seasonal and operational fluctuations can be and have been very effective. They have been adopted in a number of situations in which the seasonal fluctuations were quite

drastic, and they have helped a great deal. They have served as a basis for a kind of regularization of employment. The adoption of these wage plans has provided a great incentive for fuller, more stable, and more efficient productive utilization of labor.

The range that is discovered by current explorations of guaranteed annual wage plans is quite wide. Although the plans that have been tried out and are now in operation are mainly in the consumer goods industries, they are by no means limited to them; for example, you have the Seaboard Airline Railway agreement covering the shop crafts, which includes a couple of thousand employes. Here you observe a pattern of operations in an industry which has problems not at all related to the consumer goods type of problems as outlined here. The actual operation of that plan shows the possibility of guaranteeing employment in a basic industry and doing it equitably and to the satisfaction of management and the union.

At the other extreme, is a city-wide agreement of the type that we have in Seattle for the laundry workers. This is a highly fluctuating industry, where the adoption of a reasonably workable annual wage guarantee, meets another set of very difficult problems of adjustment at the other end of the range.

There is a crucial point at which discussion, certainly theoretical discussion, of the problem sometimes comes to the parting of the ways between representatives of labor and management. That is the problem of advance budgeting of the expenditures to be made for the maintenance of the labor force as part of the production and the labor costs involved. In budgeting their course of production over a period of time, many industries have provided a very accurate estimate of the potential demand, and were forced to ignore the possible changes in the trend that might occur in the meantime. The purchasing policies were based on the necessity of striking the best bargain, and having that bargain rely on a particular volume of raw materials, equipment and parts ordered from other firms to carry out a particular production schedule. Many manufacturers, including automobile manufacturers, have based their purchasing policies on their requirements for a year ahead and have to that extent engaged in a planning their production on an annual basis. They have taken risks on their purchases to that extent, whether the commitment is for three months or six months or one year depends on the industry, and does not really lie at the heart of the issue.

The heart of the issue is the necessity of taking that advance risk for that time. Managements must adjust their marketing, advertising and sales policies to be able to carry through and support the risk they have assumed. This risk-taking applies to all expenses of production except for the payroll. In that one area, management has sought flexibility for absorbing the possible shocks that may come during the period ahead.

Because of that realization, and because of that tendency which has to be recognized, it is possible to come out with a sort of half-way annual wage plan. It is possible to come out with an annual wage scheme that guarantees employment to all employes for only a part of the year or for a full year to only a portion of the employes, probably those who have fairly good prospects of continuing in employment during the year, as far as the foreseeable circumstances permit. If there are 600 out of a thousand workers who fall in that category, whom the management recognizes to be safe risks in terms of the annual guaranteed wage, and the agreement covers only them, then there is a great danger of having an agreement of that sort turn the remaining 400 workers into casuals.

That is, an annual wage plan badly designed or improperly applied, may casualize a large proportion of workers who otherwise would not be casual employes. That is one type of reservation—and there are a number of other kinds of reservations—that unions have expressed, and quite legitimately, to the installation and operation of particular types of plans.

Now, what is the possibility of working something out?

I think that it is quite considerable. After much delay, a study was undertaken by the Research Staff set up in the Office of War Mobilization and Reconversion. This study, which Mr. Murray Latimer is handling, is merely exploratory. It is primarily devoted to the purpose of finding out the views and reactions of both the employers and the unions concerned as to what could be done, and to study the cost of doing it. The group of economists who will take part in the development of the theoretical and the economic aspects of the study includes Professors Sumner Slichter and Alvin Hanson of Harvard. There is a clear recognition of the fact that there are two approaches to the problem and that the two views may be divergent, and that in any conclusions that are drawn from a study of this kind, both points of view must be fully expressed and fully stated.

Mr. Latimer has devoted a lifetime to the study of private pension systems from the standpoint of management and the employe. He has gone through the studies of individual companies, and he has given more attention than anyone I know to the management problem involved in assuring a degree of security to those employes for whom management is responsible. He has gone further into the field during his service with the Railroad Retirement Board.

Some things that we need and that we should get out of this study are guide-posts and indications as to what are the complications of each step in particular industries. We have the obligation of exploring the problems and difficulties instead of junking this whole thing and throwing it away simply because we do not like the implication of the label that may be put on a plan, which possibly may be quite sound. The fact is that we have a wide range of alternatives among which may be a workable solution.

The main highlights have been pointed out by Dr. Kaplan in his initial presentation. The outstanding fact is that whether it is in preparation of cereals in grain mills, or whether it is in a printing plant, or whether it is in a cement manufacturing plant, you have evidence of plans that have been worked out carefully, have gradually been put into effect, and have remained workable.

There are several operating problems involved that have not been touched upon, and I want to mention briefly one or two of them. For example, there are compensatory payments and all the difficulties that surround that. It is perfectly feasible for us to recognize a situation in which no plan has been in existence before, and to recognize a very simple device that may make a plan feasible in that situation without raising all the bogies of the possible collapse of the entire enterprise. That is the necessity for working out in advance a basic framework of financing the plan. An annual wage plan does not have to go into effect the day after it is agreed upon. It may not go into effect for one or two years. If there is cooperation between both management and union, the reserve fund that is needed can be built up in advance. That is one of the devices.

But certainly the possibility of working out that type of a plan, emphasizes the need for working out the whole project in terms of the objectives, rather than in terms of the obstacles. Now,—and I am just picking out this one particular element—the reason for that being so important, to my mind, is the fact that if we as labor and management jointly embrace the objective, in order to see the possibility of overcoming these difficulties, if we assume the role of engineers in order to be able to study every angle of it, and every seam of the relationship between labor and management, and if we accept the implications not only in terms of the ideal broadly stated by labor, of economic stability in relation to the whole economy, but also the equally important ideal of maintaining the highest possible attainable efficiency in the plant under the operation of this kind of a plan—if those are our purposes and our objectives, we can really get the job done. We cannot do it overnight or even perhaps in five years. It may take longer. But there is a way of bringing out the best that there is in the management and labor relationship as the first step toward the assurance of greater job security and greater economic security in the industry to which the enterprise and the workers in it have chosen to belong.

Finally, let us not forget the political implications of economic instability that we all see. It is all very well to dismiss the social implication of what union leaders have said. It is all very well for us to look blandly at the great unprecedented depression that shook the United States in this very generation and just assume that it will not happen again. It is all very well for us to look upon the trends in production right now and feel irked about the delays that are developing today. But let us not forget the predictions of Irving Fisher, who, after the last war, pronounced the arrival of permanent prosperity.

Let us not forget that that pronouncement came at a time when we were going above all the levels that we had attained. Let us take into account realistically that we are now at a level which will not endure permanently, or for any length of time. We have got to deal with a depression that is sure to come, unless we help to prevent it. It is clear that the next depression, from all the elements in the picture, is going to be bigger than the one we faced in 1929-1932.

Let us recognize an obligation for management and labor to work out a cooperative relationship, and say, "This is our job. We are working on this. This cannot be done, but this can."

So my plea today is a plea for realism. It is a plea to find a possibility of acceptance by management and unions of a common language, not merely a common language for argument and negotiation of a particular contract provision, but a common language of exploration of problems of mutual positive concern to labor and management not related to negotiations. How often has management found time to sit down with the union representatives with whom they are dealing on difficulties and problems in dispute, sit down not just for conversation, but sit down with them, with the representatives of the people who are working for them, and say, "Let us look at the past and the future. Let us think this thing through. Let us tell you, the union people, what worries us about the future and let us hear from you what you think are the implications of what is ahead and how we can best meet them." How many men on the management side have done that? And how much real help has been provided in that by union people? I do not think that it is entirely management's fault. The American Federation of Labor calls upon both management and unions for practical union-management cooperation because it believes that it is essential for the day-to-day relationship between workers and employers to be cooperative. Labor and management must work together if they are to work out plans that are not laid in terms of conflict, that are not put in terms of disagreement to begin with, but are set in terms of broad planning to meet the very real, the very immediate, and the very inevitable problems that both management and labor are going to face, and are going to face very soon.

DISCUSSION

Question: Mr. Shishkin, did I understand you to suggest that both management and labor continue to build up a reserve fund out of which income could be provided for employment?

Mr. Shishkin: Yes, as a matter of fact that is one proposal and is the basis of one of the company plans that has now been consummated. The proposal specifically is to put in escrow, the funds which will not be in the hands of either management or labor for the financing of the first stage of the operation.

Question: Can you give a practical suggestion or two as to the methods of building up the fund, specifically, to assess the union group or the men individually, or to turn over the bonuses to the plan?

Mr. Shishkin: The proposal in this particular case was to assess a percentage of the production turned out in a given year, and here have equal contributions by management and labor into the fund, with the understanding that if the plan goes into effect and there are fluctuations in production which will make the wage payments unstable, the constant wage plan will be made possible by tapping the fund as is done now by other plans. If this plan does not go into effect—then in that case, the money will be returnable to the management and to the workers at the end of the period. If one worker withdraws during this waiting period, he receives a refund of his contributions into the plan, and an adjustment is made on the basis of the interest rate by the union adding a sufficient amount to take care of that turn-over or dislocation.

Chairman: Mr. Du Brul, Dr. Kaplan, would you also like to comment on that question?

Dr. Kaplan: I might supplement what Mr. Shishkin has said by pointing out that under the Nunn-Bush plan, theoretically, at least, labor supplies 100 per cent of that reserve. It is assumed that in the total product, labor represents about 19½ percent; it fluctuates between 19 and 20 percent. In a good year, the pot that it actually divided among the workers is a little short of the 19½ percent. The difference is saved as a reserve. In a poor year, when that 19½ percent may mean a drastically lower weekly wage, the men draw on the reserves. A committee of the workers works with management to decide how much they shall draw on that reserve. There have been three different periods in the last few years, as I recall the plan, when a committee of the workers decided that the weekly rates should be reduced, or even the percentage reduced, in order that the reserve might not be completely depleted and in order that the reserve might not have a deficit. Thus even 100 percent of contribution by the workers is not entirely outside the picture, under annual wage plans that have been in operation.

Mr. Du Brul: I do not know that I have anything to add except to mention that Badger Carton, Armstrong Cork, and Hormel, all have plans in operation which rely upon the principle discussed by Mr. Shishkin. In fact, the plan which we operated was of this type. In all cases the employer puts up a reserve and those employees who draw upon it make repayments out of future earnings. I do not see that there is very much difference between the employer who puts up a reserve instead of granting a raise or one who grants a raise and holds the raise in a reserve. The important thing is that there must be a reserve and it must come out of current payrolls. In other words, the problem is one of distributing a pot of wages so as to stabilize the income of the workers and there are many ways of accomplishing this stabilization.

I am particularly impressed by Mr. Shishkin's remark that you have to study each individual case to decide what can be done in that case in light of the particular circumstances and thinking on the part of the people involved and that this conclusion will not necessarily fit another set of circumstances. That is one of the most important points in this problem, namely, that no single plan can be applied to all situations and no successful plan can be legislated. If you get people to understand the problem and to work at a solution you will inevitably come up with some answer provided you work at it hard enough. It may require considerable selling to persuade some of those involved that your answer is the best that can be hoped for under the circumstances, but it is certainly worth trying.

Question: Is the reserve a deductible item of expense?

Mr. Du Brul: It is a deductible item provided the employer has no control over the reserve and provided it is an actual contribution to a fund. Any amount that the employer might get back later on because all of his contribution was not needed would be an offset to his contribution in that year, much as your contributions to the liquidation of past service credits under retirement plans. At least that is the way I interpret the laws on the subject. The important thing is that the funds must be trusteeed independently. Aside from the question of tax deductions there are some state laws which prevent an employer from holding back any amount from employees, but through trustees under an agreement both problems can be handled very well. In that way employers are relieved of any responsibility in the matter beyond seeing that the trustees are reliable.

Question: Would benefits from the fund be payable during strike periods?

Mr. Du Brul: I do not believe so. I presume that the employees can draw their own funds. It belongs to them. I know that, in our own plan, it was provided specifically that if the unemployment was due to strike rather than laying off a man, or for some personal reason, they could not borrow any wage advance from the fund. We had to invoke that once.

Question: Have any of these companies who have had guaranteed employment plans or guaranteed wage plans had strike difficulties? I think a problem does arise when there is a strike in your suppliers' plants and you are shut-down. How can you assure your people against unemployment due to strikes in feeder plants? I am not sure I know the way around that.

Dr. Kaplan: I think that those who have operated the plans continuously have felt that they have minimized the reason for strikes. As a matter of fact, the history of most plans is that for years they were in operation in plants which were not unionized.

The only case that I know of where, over a long period of years, the guaranteed wage plan operated under a union agreement, is in connection with the National Wallpaper Company, which was really a group of companies, whose plan goes 'way back to 1894. In that case, they had the strikes at the points when one agreement was about to expire and it was necessary to renew the agreement and get it in modified form. When the company felt that it had to reduce the number of guarantee weeks from 52 weeks to 45 weeks, reduce the rates of pay, and reduce the percentage of the employees who came under the agreement, there were difficulties and strikes. So long as it is not necessary to change the plan and things are moving along smoothly, you are not going to have strikes; but when concessions have to be made, and it is a question as to who is going to move toward the other in making the concession, human nature is not going to be changed by having an annual wage agreement. One strike, during the wallpaper agreement, was so severe that the union, as a result of it, lost a little more than one-third of its membership and came back under a new agreement, in which they made concessions. You have, in the annual wage, a factor that ought to reduce the incidence of strikes, so long as the company can keep up with the guarantee; but at a point where an adjustment must be made, anything can happen.

In the case of Nunn-Bush, where the workers themselves watch the fund and participate in the auditing, and know what the company can do about as well as the management, it has been possible on three different occasions to reduce the basis without causing any difficulty. Nunn-Bush has not had any strikes, but that is a rather unusual case.

Mr. Shishkin: I think where it is necessary to make adjustments in the plan, the explanation must be made quite frankly. A number of guaranteed wage plans were introduced into industry, by men like Hormel or by Proctor and Gamble, as a part of a company personnel policy which was designed, to a very large extent, to keep unionization out of the plant. Hormel admits quite frankly that that was its rationale when he was thinking about a scheme of that sort, and that was part of the arrangement, so of course in those plants, where there is no union, the plan developed without representative participation of the workers.

Other experiences indicate that if there is a joint committee in which labor and management are active participants in the plan, and the question of modification of the plan comes to the bargaining table as a result of a current study of all the changes in the plan, that the possibility of a strike as a result of disagreement on the plan is eliminated entirely.

On the whole, there is a very strong indication as in the garment workers case and others, as well as from the few instances of public utilities in which the experiences are more recent, that the presence of the plan, in itself, is a very strong influence upon the union to maintain stability of the relationship and to avoid a break or an interruption in work, and to avoid work stoppage if the dispute arises on some other ground.

Question: I consider this problem to be similar to the background problems of life insurance. In the early days, a great many life insurance companies had to raise their rates and change their set-up because they could not properly predict what was going to happen. Later, actuary rates were established, and the programs that were set up in fraternal organizations and other activities which were not on an actuarial basis were reduced to an actuarial basis or abandoned. Here we have a problem which we are trying to approach from the standpoint of an individual company dealing with a contingency that arises in its own organization, whereas if those contingencies broadened and were covered by an insurance company, possibly, they could be handled more soundly.

I should like to ask Mr. Shishkin why he believes, if he does, that this should be an arrangement between the union and the management of an individual company, rather than an arrangement with country-wide agencies, such as insurance companies, where the risk could be broadened.

Mr. Shishkin: Whether or not an actuarial basis such as you suggest can be established is one of the questions which has been explored rather extensively by actuaries in the insurance field. So far there have been no takers. Private insurance companies are unlikely to become payroll underwriters.

In answer to the second part of your question, on having the details of this arrangement worked out between labor and management, I would say that that would certainly preclude the possibility of the application of a third financial relationship of this kind. What I have very distinctly in my mind, in the necessity of working out a problem of this sort, is the job of having an agreement between the representative of the worker and management, in order to provide for a working relationship in the operation of the plan, rather than an acceptance by both of them of intervention by the government. I think that the acceptance of any guaranteed annual wage plan which is either prescribed by government or mandatory or is administered with govern-

ment intervention, is out as far as the vast majority of the trade union movement is concerned.

Question: Could you have a guaranteed wage plan that would guarantee the maximum wage? Would it not have to be some percentage of the so-called higher wage rate?

Mr. Shishkin: There are a few wage plans with full annual guarantee of payment of wages at the rate agreed upon for a 40-hour week, let us say, or for a six-day week, to be paid at the accepted prevailing rate at that plant. It is a guarantee for the year ahead. Most of those are either in distribution, wholesale, or retail trades. If, over and above this there are overtime rates, they are not covered by the plan. But apart from that area, a great many of the plans provide for a guarantee of a certain amount, which may not be the full amount of the wage, but is the guarantee of that wage or that payment over a specified time. It may be 52, or 45 or 40 weeks. One of them that I remember reads that it is 42 1/3 weeks guarantee, but it is a limited guarantee either in terms of the amount of the wage, or in the amount of time that it runs.

Chairman: Dr. Kaplan, would you like to comment on this question? Have you anything further to offer on the insurance feature?

Dr. Kaplan: It only occurs to me that the life span of individuals, which was given as an example, is a little more stable a basis for an actuarial determination than ups and downs of some lines of industry. But I imagine that just as Lloyds, in giving insurance on a ship, consider the situation of that particular ship as well as the condition of the ship-building industry and of ships generally, so almost any science of actuarial science connected with the annual wage would have to consider many things: what industry is involved, what are the set of conditions you will have generally, over the next few years, and what is the peculiar conditions of this one firm inside of that industry; and the rate that it sets will be the combination of all those factors.

Question: Which would make the cost prohibitive to most of us?

Dr. Kaplan: I am not prepared to say about that. It may be, as has already been suggested, that we are more scared by the uncertainty factors because we have not fully explored them, than we would be by the situation after we knew more about it.

Question: Would more general application of the annual wage prevent severe fluctuations in business cycles? There are a good many who believe that the severity of depressions is largely due to fear on the part of the individual, that he might lose his job, thus making him curtail his expenditures, and this being cumulative, aggravates an otherwise bad situation. I wonder if either of the speakers would care to comment on the extent to which the annual wage might help to cure some of the depressions.

Dr. Kaplan: Let me merely point out some of the things that you will have to study in order to get answers to that. In the first place, it has already been brought out that in some industries, you can see almost directly the relationship between the funds available to the workers and what they might buy. The obvious consumer goods that are bought from day to day, food, clothing, rent, and items of that sort. But in a case like that of the steel industry, there is little that you can do in the way of relating the funds in the hands of workers as employees to the purchase that they are going to make of steel.

The steel industry waits until it gets orders. It is limited in the making up of advance inventory. You do not merely inventory steel. You have to inventory steel of certain metallurgical content. Every buyer has his own specifications. The customer may change the specification from one order to the next and the steel industry has to wait until demand develops. You might say that when the demand has developed elsewhere for consumer goods, that in turn will be reflected in the steel industry, and it may be that if you built up a reserve for a certain number of years and everybody was willing to chip in during the waiting, maybe steel would be coming along. You cannot be sure. By that time magnesium and aluminum might be taking the place of steel in those particular fields.

In some industries, you can increase production a great deal without increasing demand for more steel. One can conceive of stepping up the clothing industry by using the same machines more hours a day; it may be a long time before the additional production steps up for the new steel.

One of the experiences in connection with W.P.A. was, that while its funds helped in saving many families from destitution, it did not do much toward encouraging additional production in the heavy industries. The consumption industries were able to increase their production a great deal without making a demand upon the heavy industries. The other great sources of activity for the heavy industries, namely, new investments, did not develop to an appreciable extent during the early thirties, despite the fact the people were eating fairly well during these years and the basic needs were met with W.P.A. and other relief funds.

To summarize in answer to the question, I think that continuous guarantee of funds to employees can have the effect of making those employees more willing to undertake commitments for certain consumer purchases, whether for automobiles, or for better things that they will give themselves immediately, but that the picture will not be uniform across the industrial board, and a great part of the purchasing that engenders employment, namely, producer purchases and investors' purchases, may not be favorably affected by overhead commitments for payrolls.

Question: Does a guaranteed annual wage increase employment?

Dr. Kaplan: It may, for a while increase employment in a particular industry, insofar as a fixed overhead for so many workers is accepted, and that fixed overhead for so many workers may mean more annual payroll in that particular firm. But the other effect may be to reduce the willingness to introduce new products, or to try new ventures. If you could hire additional employes without making a guarantee commitment, you would take them on, where you would not take a chance if every time you hired them, you would have to commit yourself to keeping them on the payroll whether you needed them or not.

You have the same problem in economics as you have in medicine. Just because so much of a dose is a good stimulant to the patient, it does not mean that if you double the dose, it would be twice as good. You may kill the patient with an overdose, just as you may accomplish nothing effective with an underdose. You have to find the point at which the advantages and disadvantages are going to match. I do not believe that total employment, which always includes a certain amount of gambling with products, is going to be increased by the fact that across a whole industry you put all of the firms under an annual wage. I think that it will put some of them out of business entirely, and I think that it may make some businesses too cautious for prosperity.

I do not preclude the possibility that by very carefully moving toward stable production you can attain a greater stability in payrolls without retarding genuine progress.

We should recognize the fact that conditions as they are, are not good enough. We must progress into an area of management-labor relationships that will give the laborer a greater sense of security than he has at the present time, but not at the expense of all free choices and freedoms that we want to enjoy.

Question: Do you believe that the guaranteed annual wage would increase efficiency in the shops?

Mr. Shishkin: I think that it is a very vital point. There is danger, in the mechanical application of a particular plan, of having an employer agree to a guaranteed annual wage and once having it, having a number of workers no longer necessary to perform a particular job, tucked away here and there on unnecessary work, and therefore result in the annual wage becoming a force to decrease efficiency. The application of a plan has to carefully guard against that result, because such a badly administered plan will result in increased cost and will be self-defeating. In the experience which we have had so far, the crux of the problem has been recognized as the need for the kind of mechanics in the actual operation of the plan, that can come to grips with that problem and, if necessary, modify the plan accordingly. There must be flexibility. It is best to have a manage-

ment-labor committee on the job to study those developments and also further the goal of greater efficiency.

On the other hand, if you have a guarantee of stable employment for a year, you have a very great incentive in that assurance of stability will attain a higher level of production and of reduced costs. The chart that we have seen shows fluctuations not only in wartime but also fluctuations in peacetime. If you study further the correlations that are implied in it, they would show that instability, in terms of quits, absenteeism, and in terms of the other factors, bears a close relationship to the sense of the security of the worker.

That also touches on the third phase of the whole problem, and which is a very crucial one particularly in view of the current trend of thinking that wage plans should be completely divorced from this approach, in order to attain a greater efficiency. I do not think that we can duck that question; it is there and we must face it. I do not want to go into details of the complications of it except to say this: that those "no boys" who say that because here is a very clear indication that we have a rate that is tied to production, and that the goal is greater productivity, it will not be efficient, ignore the experiences that have been on record over a long period of time for workers who have been on the guaranteed annual wage plan. Salaried workers and others have shown constant increase in job efficiency, despite the fact that their employment has been made more stable and assured.

As a matter of fact, in some meetings in which I have been present, criticism has been leveled at the whole idea of a wage guarantee on the basis that it would reduce efficiency. This argument received considerable response on the part of those people in the audience. However, I have observed that these audiences were constituted mainly of people who, in effect, were themselves working under the guaranteed wage plan, and who would never admit that their efficiency was lowered any because they themselves had an assurance of tenure and the assurance of a paycheck every month. I think that among professional employees, the white collar classifications of all kinds, and the technical services that are rendered within industry, you will find that there is a very great possibility of increasing productivity and efficiency where a stable compensation is assured.

Question: All of our speakers have mentioned the need of having a large fund before this plan is started. I am wondering if there have been any suggestions as to how much the present social security plan for unemployment would have to be increased to take care of unemployment insurance and the annual guaranteed wage.

Mr. Du Brul: I am not sure that I can answer your question directly. I can say this, that every expert in the field of unemployment compensation has admitted that the unemployment compensation systems in effect in this country and in those European countries whose systems preceded ours, were never designed, nor could they possibly

be designed, to cope with the situation of a nation-wide acute depression that extended beyond six or eight months. They would go broke. You could not conceivably establish a rate that would compensate for a situation of that kind. Does that answer your question?

Same Gentleman: To some extent. If unemployment insurance will not accomplish what we are seeking, then the establishment of a guaranteed annual wage would require another fund to be put aside on top of the enormous fund that we already have.

Mr. Du Brul: I do not quite agree with you for this reason: actually a collective group of people, that is a society, cannot save money; however, the individuals within the group can. The so-called reserves of the unemployment compensation system and Federal old-age system, are not reserves at all in the true sense. They are merely accounting systems for recording the contributions made by individuals. When these individuals reach retirement age they will have to obtain their support, that is, their food, shelter, etc., out of the current production of those who are still working. The real answer to the whole problem is a sufficiently high level of business activity to keep our unemployment down to socially tolerable levels and then employ various devices to provide assistance. These devices are very much like the net placed under an acrobat; if he falls he at least does not break his neck. We must consider them as devices to level out the variations in a worker's income if we cannot level out the variations in his employment.

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Adaptation Of Office Practices To Peacetime Production

By

ERNEST M. IKIRT
COLEMAN MAZE
D. H. FULTON

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The conclusions arrived at as a result of The Foundation's conferences and forum meetings during the past few years are that the most desirable economic objectives for America for the next several years are as follows:

1. Economic expansion, a rising national income, high levels of production, and high levels of employment.
2. An economic system of private business enterprise, business competition, and a continuous birth of new business units.
3. Equity of economic opportunity, incentives for the development of individual talents, resourcefulness, ingenuity, and enterprise.
4. A reasonable measure of economic security, stability, progress, and status for the individual.
5. International cooperation and world peace.

Assuming that the above objectives are the most important economic goals for America in the years to come it follows that our chances of achieving them will increase almost in direct proportion to the number of citizens who understand the facts, and reason logically on them. This applies with special significance to all persons charged with the responsibility of making decisions on policy formation in business, labor, and government; and to all persons who have the responsibility of guiding the thinking of others.

To the end of fostering greater public understanding of how America as a nation can most effectively implement the achievement of her desired ends, The Economic and Business Foundation sponsors annually a series of Conferences and Forums on a proposed program of American Business Policies. This pamphlet contains the proceedings of one of those meetings.

Adaptation Of Office Practices To Peacetime Production

ERNEST M. IKIRT

D. H. FULTON

COLEMAN MAZE

OPENING REMARKS

By

ERNEST M. IKIRT

Assistant Treasurer
Republic Rubber Division
Lee Rubber and Tire Corporation

Only during the last twenty years has scientific management been applied to the office. The Economic and Business Foundation is to be commended for having placed this very important phase of business on its agenda for discussion this afternoon, for the postwar period upon which we are now embarking, holds for those of us in the field of office management some very difficult and complex problems, and I dare say that our strategy and over-all planning will need some overhauling if we expect to be successful in our chosen field of endeavor.

The speakers selected for this session are nationally known for their outstanding achievements and contributions to the growth and success of the National Office Management Association. They have given a great deal of intelligent consideration to the problems which confront us at the present time, and their background of knowledge and experience will make their addresses worthy of our closest attention.

Dr. Coleman Maze, our first speaker this afternoon, comes from New York University, where he is serving as professor of management. He is the recipient of many degrees and the author of several books on business management.

Our second speaker, Mr. D. H. Fulton, is office manager for the Eastman Kodak Company and has long been active in office management affairs.

ADDRESS

By

COLEMAN MAZE

Professor of Management
New York University

There are two or three facts that ought to be in our minds as we discuss this subject.

The first one is something like this: There are some fundamental changes taking place in our economy, in our industrial and our social thinking. One of these changes bears directly upon the problem that we are dealing with this afternoon. It is an interesting problem; it encompasses the whole of business, and it affects the future status of private enterprise. We must not be unaware of it, because some of the things we are now doing and some of the things we shall do in the years to come will undoubtedly have a very important bearing upon the future of private enterprise.

There has been, it seems to me, a considerable amount of thinking along the lines that American business exists in order to serve the people rather than, as we have felt, for the benefit of its owners. This thesis does not deny private ownership or the profit motive, but it simply suggests that as a matter of rendering the services which the people are entitled to, we must undergo some fundamental reorganization of industry; and that must be preceded by some changes in our convictions.

One of these changes is that the time has come when it is no longer suitable for stockholders and boards of directors to govern and to dictate totally the operation of a business concern. To say the same thing another way, is to say that in the future it will be the public's intention to place on the shoulders of management an increased degree of responsibility for the conduct of enterprise and for the satisfaction which the people derive from that enterprise. This suggests that we are heading toward a future where management will be held responsible for serving equally well the interests of all the parties in every business enterprise in the nation.

Those parties obviously are the stockholders, the boards of directors, the management itself, the workers, and the public. Just what form the reorganization will take in order to bring about this improved service and the full acceptance of this responsibility on the part of management is subject to speculation at this moment. There does not appear to be very much on the horizon as to what form it will take.

There are, however, many indications to point to the fact that management must be better prepared, management must be better qualified, management must develop and abide by higher standards of ethics and business conduct. Now, when I say "management," I

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use the term all inclusively. That applies to the office manager as much as it does to top management.

The second fact which should be in your mind in connection with the topic of the afternoon, is that there are no royal shortcuts to efficient and effective operation of the office. That is an important point for you to appreciate. If you do develop and are able to maintain efficient and effective office management, then it must come about as a result of serious thinking, of much hard work, and of intelligent planning on your part. There are other requirements to view objectively, which I shall mention subsequently.

The third point is that it is not my intention to address any new theories to you, but rather to endeavor to remind you that it is the better practice of the things we now undertake to do that will produce this result. Let us ask ourselves the question, "What must be done to better adapt office management activities to peacetime requirements?" We have come to realize during the war something too many of us did not realize before the war, which I think is significant from the office manager's point of view.

Records have become infinitely more important in the conduct of business in recent years than they were in the earlier years. There is an obvious reason for this. As the size of the business unit has grown, the ability to manage it through personal contacts has diminished. The typical man in top management today can maintain very few effective contacts with very few subordinates. Notwithstanding this fact, he is still charged with the responsibility for the direction, the control, the organization, the planning, and the coordination of the activities of the enterprise.

Can he accomplish these responsibilities without the benefit of these personal contacts? The answer is no in part. He must supplement their reduction through having come to his desk a continuous stream of information concerning plans, concerning results, concerning commitments, and concerning all other phases of the operation of that business. He must have this information at his finger tips. He is not in a position to go out and get it at the source, and so it must be brought to him. That is the essential job of the office manager; and it will become an increasingly important job in the future, because once having recognized that management activity can be conducted more efficiently through adequate records service, top management is going to insist that such service be available in the future. That puts the problem squarely up to the office manager. If he wishes to continue to provide this service, he must meet this problem. Here, of course, we come to better office procedure and office practices as a means of meeting peacetime needs.

One of the problems during the war—(and it is interesting to point it out, because not too many people, I think, have realized it)—which

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has beset many business men whose businesses before the war were of modest size, perhaps measured in terms of workers—100, 200, or 500 workers—and during the war expanded five or ten times their pre-war size. I have talked with a number of business men during the war. They were very frank to admit that they felt they no longer had control over the business. They pointed out their management techniques before the war but said, "We can no longer maintain these personal contacts, and, consequently, we just feel that we have no control over the activities of our businesses. We do not know what is going on." The answer, obviously is an accurate system of records which will supply them with the information and provide the channels through which they give their instructions or decisions.

Having set up the record system, another problem presents itself. The men who have not been accustomed to managing through records must be taught, and this is a job for the office manager of the future, who will have to share the responsibility for training his own management to make better and more effective use of the records which his organization compiles, tabulates, and presents to it

Specifically, what must be done? It seems to me that the first thing we must do as office managers—(and we must sell this idea to top management, because we must have the policies to support the program that we want to undertake)—is to get into our own heads the fact that the office is a production organization, quite as much so as the manufacturing department. We must get into our heads, also, that the techniques used in the manufacturing department are equally applicable and will produce the same type of benefit in the office as they have in the factory.

Having committed ourselves to that belief, we must then set out on the same type of program as we did in the factory, to bring it under modern scientific management. So much at the moment, for a point of view.

The next thing we must do is to think in terms of the office organization. There is too little attention given to the organization of the office, and we fail to recognize the fact that far too many of our problems have their origin in organization weaknesses rather than in personnel or other conditions. It is a strange thing that when we try to find out the cause of the condition in the office, which impedes work or which produces unsatisfactory human relations, we seldom stop to ask ourselves, "Is there an organization defect which may be causing or contributing to this condition?" I am certain, from my own experience alone, that if we made the necessary investigation, we should find in ever so many cases that it was an organization problem rather than a problem of some technical nature.

The scope, the activities, the place in the structure of the office organization, must be clearly defined. The office has been, to some

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extent, a football, in a way; it has been kicked around by the departmental executives as well as by top management. Its authority has not been recognized. It has been shouldered with responsibilities without having delegated to it the authority to effectively accomplish these responsibilities. Its methods have been challenged. It has been dictated to on all scores. The office cannot function efficiently under such conditions.

It is necessary, therefore, that top management be made aware of this particular problem and that it take the necessary steps to establish the office as a production department at the proper level in the organization structure and that its duties, its responsibilities, and its authorities be clearly defined, and that its effectiveness be measured in the same terms and by the same yardstick as are applied in the case of the manufacturing and other operating departments. It seems to me that one of the weaknesses of the office manager — and this brings me to the third point — is that he lacks executive ability. One of the weaknesses of the office manager has been his inability to sell his ideas, to sell his program. He has always been a good technician, but he has lacked what it takes to sell management his program, and to gain managements support for it.

He has oftentimes been denied an approval to add one or more persons to his staff; he has been denied an appropriation to buy machines, desks, or equipment; he has been denied additional space; he has been denied a great many things he needed to do his job and do it well, and there must be reason for that. I have felt for a long time that there was a reason, and I have tried to find it. The only answer I have been able to come up with is his failure to sell his program to top management. The sales manager is a salesman by profession, and he makes the most of it; and where you have no salary standardization in a business concern, I think I can safely predict that in most places you will find the clerical department salaries paid by the office manager, are lower than in any other department. The answer seems simple. The sales manager is a good salesman and he gets his point across. He sells his ideas. The manufacturing department—while not such good salesmen—have a case of necessity; they say, "We cannot produce, we cannot put out a product, unless we have this and that. We've got to have that new machine. It will save us money; it will speed production." They build up a case for themselves.

The importance of production is recognized by all. The office manager goes in with the same story, and, because he has not sold his management on the value of the office, they just cannot see it. Consequently, they trade him peanuts for coconuts.

The office manager must put himself in a position to associate with his fellow executives of departmental and better rank and do it

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effectively. He must, therefore, know the company; he must know organization; he must know the management problem, and he must be able to talk the language of management. Not only will this help him to gain status in the organization, but it will help him to widen the area in which he contributes to the welfare of the company.

There is much that he can do for top management, once he knows its problems; once he sells himself to top management, it is likely that he will be taken much more into their council than he is at the present time.

I think it is an obvious fact that practically every policy formulated at the top in one way or another affects the operation of the office. Why, then, should it not be good practice to have the office manager at the council table at the time that policy is formulating so he may add his contribution, whatever it is, or so that he may begin to make the necessary adjustments which will aid in making that policy effective and which will supply management with the yardsticks by which they may measure the results of that policy.

The staff requirements of the office must be more accurately determined than has been the case too often in the past. The office manager has asked for new help, but he has not been able to justify it. He has been accused of hoarding labor; he has been accused of having an excess of personnel without jobs for them to do or without sufficient work to keep them busy. He has been in a poor situation to defend himself because he has not done a lot of things that he should have done.

It is possible in most cases to relate the personnel requirements in the office to other phases of business activity. It is important that the office force be regulated up and down in terms of the business, whether it be the volume of sales, the number of transactions, the number of employees, or whatever the index on which the determination of staff requirements may be based, it is present in your company if you can find it. It will not give you 100 per cent of the answer, but it will give you, I should say, 75 per cent. From that, and some good guessing on your part and establishing minor relationships and ratios, you should be able to develop the yardsticks by which you can not only control your staff requirements, but can prove need when need arises, and can prove that you are not overstaffed when the time comes to reduce in other departments of the business.

In order to get staff you must develop suitable and adequate sources of labor supply. The office manager has given far too little attention to that particular problem. He has been willing to rely on such sources as were available through which he could recruit applicants for the jobs he had to do. Oftentimes, the best sources were unknown to him and, consequently, the labor he got was not the top

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grade of labor available in his community. It is costly to have less than the best, when the best is available. As a rule, it is no more difficult, no more expenses are involved, in finding the best labor than in finding something that is less than the best.

The office manager, I think, sometimes takes the easy way out by tossing his problem to a private employment agency or perhaps the U. S. E. S., and it could be that neither of them would be well equipped to handle the problem satisfactorily. There are a lot of widows, for whom I have a great deal of sympathy, and a lot of broken-down business men and a lot of men who know little about business, who have gone in to private agencies, and when you ask them for an edit clerk they think you must be printing a newspaper, because they know so little about the types of jobs and the types of work which are carried on in the average office. They are unable to make an intelligent selection of personnel for you. Consequently, whoever has registered, and perhaps paid a registration fee, or whomever they may have available at the moment is sent out. Your time is taken and wasted, and nothing is accomplished.

If you use such agencies, try to set up a working agreement with them so that you may conserve your own time and may have an opportunity to get suitable applicants. Some of the practices of recruitment which were widely used by business and government and other agencies during the war are well worthy of your study. They offer some concrete suggestions or ways and means for the development of good sources of labor supply. You may expect the problem of staffing the office to remain difficult for the next five years because of the decline in the birthrate in the late 20's and early 30's.

We not only need to have good sources of labor supply, but we need to know specifically and with a great degree of exactness what qualifications we need in the people we expect to hire. Obviously, that means job analysis and the development of job descriptions and specifications. It does not make much difference whether you have half a dozen people in your office or half a hundred or several hundred; you do need to know the job requirements.

The time has long since passed when modern business can afford to hire people just because they happen to possess certain qualifications. Today, we hire people because they have the qualifications demanded by a specific job; and we know the qualifications the job requires.

We must set up the techniques which will enable us to determine whether or not the applicant has the qualifications required by the job. In other words, better selection of personnel is essential as a peacetime necessity. To begin with, our interviewing techniques are very, very poor; they are disgracefully bad in most companies. The person who is styled as the personnel director or the employment in-

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interviewer has perhaps been chosen for reasons other than the fact he or she is competent to do interviewing. There is no organization to the interviewing technique; and, consequently, the decision as to the suitability of the applicant is based too often on hunches, misinformation, and inadequate information and facts. That preliminary or screening interview is followed by an interview with the supervisor, who is going to use this applicant, if hired.

The supervisor is busy, he is a harassed individual, and he seldom has time, inclination, or the ability to conduct an interview intelligently and effectively. He has had no training in interviewing. Until anti-discrimination and unfair labor practices legislation was passed, if he approved of the employee's looks and his race and was told that the applicant had three or five years' experience, he put him on the payroll.

Perhaps he has gotten a fair average of good employees, but he also has a number of poor ones. That will be a more costly thing in the future than it has been in the past. It is worth reminding you that most states have, or are contemplating, some sort of a merit rating plan on unemployment insurance costs, and, obviously, turnover expense will be an important factor in determining the unemployment insurance costs which you have to pay.

One of the big problems which lies ahead of us — and it would be well if it were behind us — is the development of better and more satisfactory relations with our employees. Have you ever thought about the unfairness of the practice of hiring someone without proper interviews and without a proper consideration of the suitability of the employee, and then in three or six months or a year or two years find him unsuitable and then release that employee? It does not seem right to me that workers should pay the penalty for the mistakes which management makes in that connection.

I have a faint notion that a continuation of things of that sort (and there are many of them) will not react favorably in the future upon management-employee relations. We can do something about it. We can train interviewers; we can set up favorable conditions for an interview; we can take the time required, if we appreciate the importance of good selection. We can introduce all of the known techniques to assist us in the proper selection.

Probably you, like most people, including myself, have the feeling that when you sit down and give an applicant a going over, you pretty nearly know the answer. We have that much confidence in ourselves, and it is well that we should, but we can fortify our judgment with a better approach to selection that we have in the past.

Once we have selected the new employee, the practice which we followed most times reminds me of my days on the farm, when we

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put the rope around the cow after she had been milked, led her to the pasture gate, took the rope off, and shut the gate. That is what we do with new employees. We introduce them to the new supervisor: "Charlie, you remember Miss Brown. You interviewed her a couple of days ago." And you say, "That is fine, Miss Brown; now I am pretty busy, so please sit down for a moment, and I will talk with you presently." Miss Brown sits down and waits until the supervisor gets around to talking with her. Frequently he does not get around to talking with her, but he realizes he must do something. So he goes over to her and says, "Suppose you come over here with me, and I'll introduce you to Gertie. She will tell you about your job, and what you must do. If she cannot answer your questions, come to see me and I'll be glad to help you. That is all I have time for just now."

I am not exaggerating when I tell you that I have witnessed that practice in hundreds of instances and I think, perhaps, it may sound more or less home-like to some of you. There is, it seems to me, an important opportunity for us, at the time a new employee is hired, to channel his or her attitudes along the right lines and to insulate, in a measure, the new worker against some of the undesirable experiences which the job environment will almost inevitably produce.

If we can do that, we have a chance to avoid a quick quit. Furthermore, if we do that, we have a chance to speed up the adjustment of a new worker to the point where we do not lose several days before the employee becomes productive.

The manager of a small office will say, "We have no need for an office manual." It seems to me that if you had two people in your office, it is still desirable to put down in writing information which the new employee will want to have. You can tell them all about it and they will remember some of it, but much will be forgotten. It is important that they should have information. If they do not get it from you, they must get it from someone else, or they learn by the trial and error method. That is very costly, very much more costly than giving it to them in a way in which they can learn it and have it and keep it for reference. So far as I am concerned, you can call it a manual or a typewritten sheet containing certain information for new employees, but the point is, be certain that they get it.

There was a time when the applicant had to sell himself to the company. That situation is changing. Today, there are two phases of the selling activity. The company may still demand that the applicant sell himself to the company, but the applicant is also demanding that the company sell itself to him. That attitude is likely to grow as time goes on. The introduction of a new employee seems to be the psychological, as well as the logical point, at which to do some indoctrination.

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If you will study the literature in the field of induction and orientation programs, you will find very much of interest in developing a plan for adjusting your new employees to the new job.

After the new employee is on the job, it is time to think of training. We have all been told that a vast training program lies directly ahead of us, not only training of the returning servicemen and women but training dislocated people who shifted from one type of work to another during the war and who are now coming back to the old haunts. They must be retrained; there is no question of it, but there are other training problems. There are short range training problems, and if the office manager is looking to his own future, as he should, there are long range training problems also.

The short term problems relate to refresher training, to simple job training; the intermediate problems relate more to promotional training at the next level and training for greater operating flexibility. The long range problem looks toward the development of junior executives and supervisors, people who have in reserve what will be needed to move up several levels in the organization.

I have long felt that the office manager could, if he saw the opportunity, undertake the development of junior executives, who would be supplied to other departments of the company, at very great credit to himself. We all ought to understand that none of us have a more important job in business than building people, developing manpower. If we can do that well, there should be a bigger place in business for us.

This is a big opportunity which the office manager has overlooked and it is one that still exists, for the most part. A business never gets to the point where it has all of the good executives and supervisory material it needs. If it is a healthy business it is growing, it is expanding, its oldsters are retiring, and the youngsters are moving up. There must be people to fill those vacancies. The office is one place where they can cut their eye teeth, where they can be developed to a substantial degree and indoctrinated in management. Given some specialized training, they become thoroughly familiarized with company activity and are prepared to move forward when there is need.

The office should not be the front door to the scrap heap. It should be the front door to the stairway. The office manager can make it that.

Of all the weak spots in operation, I think the greatest one is at the supervisory level. Traditionally, it has been our practice to wait until we were deprived of a supervisor by death, resignation, or other causes, and then cast about among the employees to find, in the last analysis, that the senior employee was the one who should get the promotion to the supervisor's position. It is very unfair to appoint an employee to a supervisory position who has not been trained to ac-

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cept that responsibility. It is unfair to the employee; it is unfair to his fellow workers; and it is unfair to the company.

If the employee who has been made the supervisor does not make good, it almost inevitably means leaving the company. He had a good job where he was. He was getting along all right, but when he took the supervisory job he did not do well. He then loses face when he must step down from a supervisory position to go back to his former associations. The frequent result is that he quits, and the company has lost a good employee.

If he is not trained in supervision, he is not competent to look after the welfare of the people he supervises, and, until he is capable and actually does that, he is not a good supervisor. If he fails in that respect, he fails to serve the company as well as the company needs to be served. So, from all points of view, it is an unhappy and expensive practice.

It takes time to develop a supervisor. They should not be products of the greenhouse as they were during the war emergency. Peacetime gives us an opportunity to develop an organized, systematic, and effective training program for supervisors, and to introduce and operate that program, consistently and more or less continuously, in order that the ranks of supervisors may always be filled with people adequately and thoroughly trained for the job.

The War Manpower Commission training methods developed to help meet the emergency were useful, but they are not sufficient. We must develop supervisory training programs and, along with that, we have the very difficult problem of selecting those whom we wish to train for supervisory positions. There have been some interesting experiments in the selection of supervisory personnel, but they are not conclusive. Perhaps they point the way which we shall follow in the years to come in the selection of supervisory material.

The question of employee compensation is a subject in which we must become interested. We have been told by authorities and others that the white collar workers have suffered salary-wise during the war. Perhaps that is true; it has disturbed the white collar people; it may have prompted them to make some resolutions about things to be done, to avoid being pinched again. Management has always endeavored to keep its clerical cost down, largely because management has considered the office something of a necessary burden, to be condoned but not to be encouraged; therefore, it has been very loath to grant salary increases to office workers. It traded on the fact that they had the privilege of coming into direct contact with management, that they were in a position to wear clean linens and not get their hands soiled, and that they had certain privileges and prerequisites, but they cannot eat those things. While these things are satisfying, once you have

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satisfied the basic urge, they are not good substitutes for money in the pay envelope.

Paternalism must give way to management-employee cooperation. Many employers are afraid of unionization of the white collar workers. Perhaps what they have seen justified their fears, but I sometimes wonder if they are not seeing a bogey man who does not exist. Much can be done to make unionization unnecessary, but it must be done out of the deep-seated conviction that this is a desirable thing to do, that it is a necessary thing to do, as a means of developing and maintaining the quality of human relationships that we want and which are essential to the conduct of business. It cannot and should not be done as a means of avoiding unionization.

Morale building and personnel control activities are very numerous. Most of them are productive when they are properly applied and the circumstances are appropriate for their application. Do not be hasty and do not try to take up every personnel activity that you hear of; that someone else has engaged in. Study your requirements. Let the leadership come from your employees, but be certain that the employees have reason to assume that a sympathetic ear will be given to proposals submitted by them, if they initiate the activity. In such a situation the responsibility for success is on them. If you initiate it, it smacks of paternalism to begin with, and you have the obligation of maintaining it. Sometimes that becomes very embarrassing.

I do not want to close without reminding you that we must begin to educate our people to think in terms of what things cost. We lost cost consciousness during the war, for the most part, but we must regain it. The postwar world is likely to be a highly competitive one. Inasmuch as the office, over the past 40 odd years, has continued to represent, at an ever increasing rate, a larger percentage of the total cost of doing business, we must begin to think of ways and means of holding the cost within reason, and at the same time improve the efficiency of the services it renders to management.

ADDRESS

By

D. H. FULTON

Office Manager
Eastman Kodak Company

The subject that we have under discussion today, "Adaptation of Office Practices to Peacetime Production" is somewhat broad and all-inclusive, and even though my good friend, Dr. Coleman Maze, and I have split up the subject, it will be difficult to do more than hit the high-spots and perhaps emphasize the more important elements.

The subject carries the very implication that present office practices are not what they should be. Probably this is true in most offices. Compromises and make-shift arrangements were adopted during the war, simply to get the work done. Incompetent help was hired; the turnover was large. It was difficult to obtain office machines, and the increase in factory production, plus government regulations, simply made more paper work. As a result of these developments, I think we must admit that our office practices, as they stand now, include unnecessary, undesirable, and inefficient operations. This condition means high operating costs. It would be presumptuous to discuss at any length the fact that this situation cannot long continue. You are as aware as I, that competition and the desire for profits will force improvements in business operation. You must look upon the office as a production unit, even though its output is only paper work. It is part of the cost of doing business, and must contribute its share.

Let me give you a definition of office management, so we will understand what our office practices include. "Office Management is the science or art of developing people, simplifying work, and measuring results to the end that the office may produce a maximum of satisfactory work in the shortest time at the lowest cost."

This afternoon, I intend to suggest to you some ways and means of measuring results, reducing costs, and of getting back to efficient operations again. For some of you it may mean spending money now, to save it eventually. I might add, too, that I do not want you to think that my own organization has carried out the program in its entirety. We do have a plan, and hope to carry it out step by step, but it is not completed by any means. Also, there will be little that is new which we will discuss; it will be simply the reaffirming of old principles.

Let us talk first about the problems of Office Methods and Procedures. As I see it, there are three elements involved:

1. Getting the facts, analyzing them, and working out new procedures, sometimes called simplification of work.
2. Motion study.
3. Forms and Reports Analysis.

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Getting the Facts and Simplifying the Work

Every office has procedures of some sort — payroll preparation, order routine, inventory control, accounts payable, and many more. If someone asks you about your order routine, you may reply, "Oh, it's just a simple procedure, works OK for our business." But, have you ever sat down and listed in detail the various steps and operations through which the order passes, the routing of the various copies, the lost time between operations? I dare say you will be amazed, as I have been on one or two occasions, in analyzing a procedure.

Yes, this is a very fertile field for improvement, but it must be undertaken as a full-time or at least the major responsibility of a competent investigator. As previously intimated, the investigator will follow through the procedure step by step, observing and talking with each employee who performs any operation. It is helpful to sit at the employee's desk and actually observe the work and the equipment used. Occasionally, the employees will make helpful suggestions themselves, especially if the procedure is discussed from the standpoint of possible improvements rather than a criticism of the present detail, preferably in the form of a flow chart. They all serve the purpose. Once the information is obtained the steps can be listed in a way of helping the investigator to visualize the operation, the time lost between operations, the "make-ready" time, the "clean-up" time, and possible bottlenecks. At this point, after the chart is completed, there is the temptation, especially if the investigator is familiar with the routine or if there has been no particular trouble, to feel the procedure is all right. After all, hasn't it worked satisfactorily? But the competent investigator will ask the WHY, the WHAT, the WHERE, the WHEN, the WHO, and the HOW of each operation. Can certain details be eliminated, others combined, the sequence of operations changed for the better? This questioning attitude is the accepted approach to the simplification of work.

Beside the foregoing principles of work analysis and simplification, there is a related field which offers considerable opportunity for further improvements and savings.

Motion Study

I wish someone would coin a better phrase for this activity, as the very sound of it seems to frighten many people. They think in terms of an expert engineer, time-watches, expensive equipment. Actually, this is not true at all. If you would take the trouble to observe the preparation of dinner you will find the principles of motion study applied right in your own kitchen. Better yet, wash the dishes yourself, and see how you can save energy and motion.

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The Principles of Motion Study are Quite Simple

1. Confine the work to an area which the employee can reach with both arms, and can perform without undue movement of body. In other words, don't make the employee stand up or use the old "boarding house" reach to obtain, perform or dispose of the work. Movements of the arm in a horizontal plane are, of course, preferable to vertical ones, as they are less tiresome.
2. Use of both hands at the same time, rather than one hand working and the other resting. This might seem tiring, but actual tests seem to indicate that it is no more tiring to keep both hands working at once in a symmetrical pattern.

Let me illustrate these first two principles with a simple example—that of assembling printed sheets into sets. Let's assume 1,000 copies each of ten different sheets, and that they are to be assembled into 1,000 sets. The conventional method is to place 10 piles on the table, make up a set by pulling off one sheet at a time from each of the ten piles, and repeat this 1,000 times. This method, if it does not require walking, certainly necessitates excessive reaching. An assembling rack will speed up this operation, and make it less fatiguing. The rack is made with five tiers, each tier being wide enough to accommodate two piles of the sheets. The operator then starts at the top, and with one hand assembles sheets 1, 2, 3, 4, and 5, and at the same time the other is assembling sheets 6, 7, 8, 9, and 10. The two half sets are placed together, and the operation repeated. This method will probably reduce assembly time by 75% because all of the work is within reach of the operator, both hands are working at once, and travel time from each pile is at the minimum.

3. The use of special jigs or fixtures, which some office managers call gadgets.

Here is a small gadget that will illustrate the point. In my hand is what is known as a performance computer, used to compute the individual performance of key punch operators. It consists of two disks, one containing the scale for total cards punched, the other a time scale. Computations are made rapidly and accurately, in fact, it reduced the computation time from one hour to 15 minutes per day.

Another example of a fixture would be a frame for shaping cardboard containers that are supplied in knock-down style.

4. Pre-positioning of the working materials and tools, and drop-delivery for completed work.

By this, I mean having the equipment and materials close at hand to avoid excessive movement. An example of this would be a pricing

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clerk who keeps his price lists in front of him on a rack, rather than in a desk drawer, which has to be opened each time a price is looked up. Still another example — a rack for rubber stamps. All stamps are visible and within easy reach, and the inking pad is open ready for use.

There are all sorts of repetitive, manual operations in an office that lend themselves to motion study. Obviously, the opportunities are greater in larger offices, where work is centralized and a number of people perform the same operation. But this should not deter the manager of the small office from being on the lookout for possibilities, as it may mean the difference between hiring an additional clerk or not. Operations that lend themselves to motion study are typing, posting, machine operation, sorting, assembling, enclosing, stapling, slip-sheeting, duplicating.

In my opinion, the field of motion study — and I say again that I would like a better terminology — offers unlimited opportunities. Yet, information indicates that it has been consistently overlooked as a means of improving office operations. I commend particularly to you films that have been produced by the University of Iowa, by the Tennessee Valley Authority, by the Standard Register Company, as excellent mediums for arousing interest. They show much more clearly than I can say in words the principles of motion study, the possibilities, the savings.

Forms or Reports

All of the office forms are reviewed and analyzed, not from the standpoint of paper or typography savings primarily, but from the viewpoint of cost of preparation. What can be done to make it easier to prepare the report, or can it be combined, or eliminated altogether?

Reports have an innocuous way of getting started, simply because someone in the management wants certain information on a single occasion. Thereafter, the report is continued regularly and no one checks on whether it is necessary. I can suggest what I think is an effective way of controlling this. Once a year, ask each department to compute the cost of preparing every report it sends out. Then, when the next report is ready, attach a little note to each person who gets one, stating the estimated cost of that report and asking whether he desires it to be continued. My guess is that you will find a lot of reports that can be dropped or at least simplified.

So much for Methods and Procedures. Now let's talk about the output of employees, which breaks down into four sub-topics.

1. Measurement of work.
2. Setting work standards.
3. Incentive payment plans.
4. Scheduling.

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Measuring Work

Surveys on this question indicate that only 10 - 15 percent of companies actually measure some of their office work. Probably you have heard the question asked, just as I have (and it arises about the time salary increases are being made), "How much work does she do?" And the answer is something like this: "Oh, she works very hard, busy every minute." Well, the work has been measure all right, but only in terms of time put in, not in units produced. Lord Kelvin once stated, "When you can measure what you are speaking about and express it in numbers, you know something about it. When you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind; it may be the beginning of knowledge, but you have scarcely in your thoughts advanced to the stage of science, whatever the matter may be."

We are very careful to measure financial transactions in terms of dollars, or to be sure that we got a dozen eggs from the grocer, or to know the number of units produced in the factory — but for some reason we hesitate to measure office performance. Perhaps it stems from a feeling that office work cannot be measured. True, all office work cannot be measured, and some cannot be measured down to the last digit, yet there are many office operations that are repeated, day after day or week after week, and are measurable. In fact, it is my observation that a careful analysis of your office work will show an increasing number of operations that can be measured. There are various devices for measuring work accurately and easily. Meters attached to machines are excellent. Some firms have established a weight relationship and can determine fairly accurately the volume of work done by weighing it. Typewritten work can be measured by sheets, letters, or typing area; orders or bills by number.

The advantages of measuring work are obvious in that you can plan the proper staff to handle the work and pick out the good and bad performers. The very fact of measurement in itself tends to motivate workers and increase production. I know of a sorting operation in which production was greatly increased by measuring the work and setting a daily standard of performance. The supervisor had not been satisfied with the production, so decided to measure each operator's performance. This in itself helped, but not enough. He then tried the experiment of sorting tickets himself for one day. He was familiar with the operation but had never actually performed it. His production for that one day was almost double the output of the operators. Naturally, he felt his own day's output would certainly be a performance that could be attained by the average worker. The standard was given to the operators, who have since reached and surpassed it.

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Setting Up Work Standards

The setting up of work standards, for an office or individual departments appears to be such an overwhelming job it seldom gets done. Here again it is important to make this a major responsibility of someone in the office, someone who has the insight and time to establish standards. It seems to me to be a very appropriate and promising way of getting employee efficiency back to what it was. I would predict that energetic office managers will really "go to town" on measurements of work. There is nothing mysterious or repugnant about it—in fact, if the objectives are carefully explained, most office workers will prefer to have their performance measured. It is only those who are "lying down" on the job who may oppose the program.

Incentive Plans

Some office managers will want to go further in work measurement, namely, establishing an incentive payment plan based upon either individual or group output. I know there has been some real opposition to this type of payment, and a number of unfortunate situations have arisen where bonus plans were installed. Perhaps they were installed too hurriedly, or without careful analysis, or misunderstood by the employees. However, I do know of companies that have used incentive plans very successfully. There are a number of different plans, usually called by the names of men who originated them, e.g., the Bedeaux, the Emerson, the Taylor, etc., all of which are predicated on paying the worker in some relationship to his output.

An incentive plan should incorporate several features:

1. It must be simple enough to be understood by the employee, and he should be able to compute roughly his earnings. Obviously, employees are suspicious of complicated plans, which they cannot understand.
2. The plan should be based upon a fair standard with a guaranteed base rate. The guaranteed base rate or standard should be attainable with average effort. The bonus arrangement should be liberal enough so that a good operator can earn 15-30% above the guarantee.
3. It is very desirable to pay the bonus earning as soon as possible after performance, so the worker will realize the advantages.
4. Once set, standards should never be changed unless the conditions that affect production have changed, and then only after careful explanation.

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Let me give you a brief example of an incentive payment plan. It is used for measuring the production of transcribers who type letters from machine dictation. The production is measured by a cyclometer attached to the typewriter, and transcribers are paid on the basis of output. Each operator, however, has a guaranteed rate, below which her earnings are not allowed to fall, and which is the basis for payment for time lost through sickness or lack of work. Without going into details of the plan, I might add that the operators average 20% over their guarantee, the best one running 50% on occasions.

Aside from general opposition to the incentive plans, some people have felt that they had too much extra work in recording production and making the pay calculations — and that any savings were eaten up by this overhead. Unless the company can save, or the employee earn more, certainly there is no sound reason for having a plan. But if the plan is simple, more times than not, there will be savings and a chance for the employees to earn more money. My own conviction is that incentive plans will be found an excellent means of increasing efficiency in the future, but I caution you about one thing. Let only an experienced person, whether from your own organization or an outside management company, work out your plan and install it.

Scheduling Office Work

Scheduling of office work deserves considerable attention, and follows very logically any work that you may do in connection with simplification and measurement of work. I think we all understand what is meant by scheduling. Scheduling is the relating of time to performance.

There are many repetitive operations where the flow of work is even and which lend themselves to scheduling. Such operations would include making up reports, payroll preparations, tabulating operations, order routine, posting, duplication work. I think that conditions during the war pointed out the definite need for scheduling. Remember how difficult it was to make deadlines — or recall the problem of determining the status of your office work. Scheduling is an excellent means for breaking bottlenecks and for keeping the supervision informed at all times of just how the work stands. Furthermore, it levels out the peaks and avoids those last minute rushes which require additional help to complete the job. By scheduling, a normal flow of work is set up and a normal staff provided to handle it. To be fully effective, some sort of visual device should be used as a control. Let me tell you about one that is used in our organization.

The board lists the days of the period down the lefthand side, and the names of the clerks across the top, with a hook in each square. All the work was divided into natural divisions and these were considered as complete tasks. A work ticket was made out for each task

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indicating the time and day due into the group, the operation name, whether weekly or periodical, the name of the operator to whom it was assigned, and the time and day due out of the group. These work tickets were now placed on the board under the clerk's name and on the day on which the job was scheduled to be completed. The clerk was then asked to do one thing: at the end of each day to remove from the board all tickets for tasks which were completed and place them on the "completed" hook at the bottom of the board. The employees know what is expected of them and when it is expected.

Tools and Equipment in Reconversion

I turn now to that phase of reconversion which involves the tools and equipment that employees must have.

For the past four years, war plants and the government have taken most of the output of office machinery. I refer to typewriters, calculators, adding machines. Unless an office has been closely associated with war work, it was forced to get along without sufficient equipment, and what it had was old. I would look for an increasing use of machines and further mechanization of clerical work in the future. Undoubtedly, many new developments have been made, which will open up entirely new applications in your office. Particularly, in the field of communication devices would I expect radical developments. Just a word of caution. Most office managers are gadget-minded; we are suckers for tricky devices. The point is, —that for four long years have had little opportunity to buy anything and there is a pent-up urge to go on a real buying spree. Be careful not to load up with devices where the volume or nature of the work does not warrant it.

In larger establishments, I would suggest the research approach to office equipment, i.e., analyzing the need, testing various machines for capacity, operation, and maintenance requirements. It will be found helpful to prepare an inventory and schedule your replacements over a period of time, putting the first deliveries where they are needed most.

There appears to be a definite trend toward metal furniture, except perhaps in executive offices, and probably this trend will be further intensified because of the increased metal making capacity, developed in this country. I would expect that more attention will be given to the use of functional equipment; i.e., desks or tables that are constructed for a particular operation. This equipment will be designed to utilize the principles of motion study, which we previously discussed; the working area or platform will be at just the right height for ease of operation; the drawer arrangement will provide for storing the necessary supplies, or disposal of waste; electrical connections will be built into the desks on which electrical machines are used.

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Special desks for transcribing, calculating, and key punching operation were already on the market before the war, and undoubtedly they will be further augmented and improved.

I believe that office furniture will be built with more flexibility. We will not find ourselves handicapped when we move a desk and find that in the new location it should have the typewriter drop on the left instead of the right. We will carry extra pedestals in stock, and be able to change them from left to right at will, and even change clerical desks into stenographic desks or vice versa.

This problem of working tools — office machinery and furniture — is important. Unless employees have proper equipment, which is in working order, you cannot expect to get the full potential output. And while the initial investment in working tools may seem high, remember that over the years it is but a small fraction of your labor cost. A very small increase in production will more than pay off.

Why are working conditions important, and why are we coming to a greater realization of their potentialities?

The value of good housekeeping, good lighting, and reduction of noise has gained growing recognition in the past ten years. I would definitely expect this trend to continue and be augmented by an increasing use of air conditioning. I would also expect more attention to the use of color schemes and their effect upon output and safety. Environment cannot be ignored because it affects the temperament of employees, and if a worker is happy in his surroundings usually he is a better employee.

Office layouts should be checked at least once a year to be sure the flow of work is smooth, and the space is utilized to the full advantage. It should be checked also from this standpoint to be sure that we are getting the best from the existing air and light conditions.

As mentioned at the beginning of this paper, the cost of office operations is now high for the various reasons — incompetent help, lack of office machinery, and simply more paper work to do. Further contributing to this situation, we should admit that the tax angle has lessened the usual incentive to hold down costs. During the war the major objective has been to get things done, and worry about the costs later. I believe the time is here to at least rate the cost angle on a par with getting things done. In doing so, let us put first things first. Don't worry now about the trivial items, such as the length of discarded pencil stubs or the number of times carbon paper is used. Labor is the biggest item in most offices and is certainly one of the first things to tackle.

If we do a good job of simplifying work, perhaps measuring it and scheduling it, and providing good working conditions and tools, certainly there will be some automatic reduction in costs. But, it is

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advisable to go one step further and adopt an orderly procedure for controlling costs and watching the progress made. A budget is perhaps the best tool for doing this. Some people have the mistaken idea that a budget will in itself accomplish results and that it will end all cost problems. A budget is only an orderly means to an end. It is a planning in advance of the cost of office operations, based upon anticipated circumstances. This very element of forecasting is advantageous in that the department managers must make plans in advance.

A budget usually assembles data for all departments and the plans and costs of all departments are reviewed at one time by the management. Do not be afraid of a budget, simply because you have never had one. It may not work the first year or so to your satisfaction; most budgets require time and experience to develop.

I do not expect to go into the details of budgeting. It is a topic in itself and there are good textbooks and articles on the subject. However, I do recommend that each manager, who is responsible for costs should have a say in making up a budget for the costs which he controls, otherwise, how can we expect his full support? The manager should be given regular reports, preferably monthly, of the actual results compared with the budget, and asked to explain any unusual differences. This follow-up is just as necessary as the preparation of the budget itself.

Adapting offices practice to peacetime production is a big job, and will require concerted efforts by management, departmental supervision, and staff experts. You can learn much from the experience of others, but the real job is right in your own organization. Do not let the size of the job postpone your getting started. It is surprising how once started, the program will roll along. The necessity is obvious, the opportunity is there, the time is short.

DISCUSSION

Question: During the war we had wage and salary stabilization; for a lot of us it meant job evaluations. Dr. Maze, do you think that most companies will continue to use job evaluation?

Dr. Maze: I think until we can find a better means of wage administration, we will continue to use job evaluation. There is a great deal of hocus pocus in our present methods, but they do justify themselves in that they make an approach to one of the toughest problems we have to deal with in the office.

I look for some outstanding changes in the techniques of job evaluation within the next few years. I know there are today a number of experiments being conducted among some large companies, and I foresee some worthwhile developments growing out of those after a sufficiently long period for the experimental work to have proved itself.

Question: I have often wondered why there should be a difference between the salary of a good office manager or comptroller and salesmen's salaries or commissions.

Dr. Maze: I think it is very largely his own fault. The office manager has failed to sell the management the importance of his job. Management does not realize the importance of office work, and the office manager has not developed the means of making them conscious of what is involved in the office. Let me illustrate in one case: I sat, as an arbitrator, in a labor argument between management and the union, in connection with clerical workers. The union wanted the probationary period to be a month; management was content to have a fifteen-day probationary period. That, I think, illustrates as clearly as anything I might say how little management knows about what goes on in the office — how long it takes to train people in the office. I think most of you will agree that for most of the jobs a month is far too short a time to be able to judge how that person is going to work out in terms of a job or in terms of all the conditions that are involved in connection with the job.

We know the necessity for salesmen, and we see the results of their efforts; but we do not see such tangible results from the work of the office manager and from the work of the comptroller. Here, again, it is well to emphasize that both the office manager and the comptroller are excellent technicians, but the comptroller, like the office manager, has not broadened his horizon. He analyzes the costs, he keeps the general accounts, he has the records and events of the business; but when it comes to their interpretation in terms of management's problems, he, far too often, is lacking.

I do not know who, in a business concern, is more strategically positioned than is the comptroller, for a staff service to top management, which it badly needs and which the comptroller — if he is a

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management man in addition to being an accountant — can supply. It would be not only to the benefit of the company, but would be to his own great advantage.

I can name for you a dozen concerns where the comptroller has moved into the rank or to the title and the salary of vice-president, assistant to the president, member of the board of directors, or some other equally important position which carries a suitable salary along with it, simply because he seized upon the opportunity that was before him.

Every transaction of the business clearing through the comptroller's department—assuming that he, too, has control of the office and the opportunities that are available to him—are just endless, but again, he must be a management man and he has got to be a good enough executive to appreciate the importance of developing a staff to which he can delegate the technical aspects of the job, in order to free his time to do the creative, the critical and constructive tasks that management needs to have done.

Statement from the Audience: I agree with you entirely, but suppose you have a couple of high salaried men like the vice-president in charge of the works, or the president's assistant, and they tell you, "This is all red tape."

Mr. Fulton: I agree thoroughly with what Dr. Maze has said. A salesman comes in with an order of \$100,000; there it is, a tangible thing. A production executive brings in a piece of new apparatus from the plant. You can see it, handle it. But, the achievements of the office manager are intangible; difficult to show. Perhaps, office managers have been at fault in the manner of presentation. If we could show a new system that saves \$10,000 a year, it would mean more to company profits than the \$100,000 order. The net profit on the order would probably be not more than 10% — or \$10,000 the same as the savings in new system — but the latter goes on year after year. Looking the situation over, I found that he had allowed the advertising. One type of presentation that might work with top management is this: "the saving resulting from the change is equivalent to an order of so many dollars."

In addition, the office manager frequently has odd jobs thrust upon him. The production department is concerned with production, and does not want any interference. But if something unusual must be done, for example, Community Chest campaigns or the War Fund drives, the office manager gets the work and he neglects his own responsibilities. I would sum up the whole situation by saying that it is a matter of presentation to top management, of the achievements that have or can be made.

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Dr. Maze: I emphasized the point that Mr. Fulton brought out about budget and about cost. In doing some work in a large company, I became acquainted with the difficulty an office manager was having in getting an additional appropriation, and management asked him what he did with the money that was appropriated. He did not have records. He could not tell them what was done with the money. In looking the situation over, I found that he had allowed the advertising department to borrow a typist from his permanent staff, and she had been in the advertising department office for three months, but she was still on the office manager's payroll. I found, in that same organization, direct mail campaigns, amounting to some 25,000 pieces handled by the office out of the office funds. The printing and mailing was done, at the office manager's expense, with no charge-back to the sales department.

Things like that are what the office manager must watch. I could tell you what happened in one manufacturing plant, for instance, where they did not want any red tape. The boys ganged up, and they got hold of the records, records of idle production time caused by material shortages. They got enough information — I do not know how they got it in detail — to prove the point that materials which caused the production shortage were actually on the receiving platform or in the process of inspection, while the departments were being shut down because there were no materials available. That is one way they brought to the attention of the factory manager, the importance of records and got his agreement to a change in record-keeping procedures, which would announce the arrival of materials to the production schedulers just about as quickly as they arrived on the receiving platform. That seemed to help convert him.

Basically, Mr. Fulton hit the nail on the head when he pointed out that our presentation is seldom satisfactory to management. It does not carry conviction with it, and I do think that the office manager can do a lot of things to help; but the problem you mentioned is still a very concrete one and exists in many companies. Sometimes you just hopelessly give up the task of educating or selling someone by direct action, but if you can sell someone above, then you can get it crammed down his throat. Sometimes it can be done. There is not a single answer to the problem. That is something the office manager ought to work out. He can sell top management and if he does, he has a better chance. He is exactly like the personnel director. The only personnel programs I ever saw that worked out were those which were worked through the line organization. If the program cannot be sold to the line organization, it is worth no more than the paper it is written on. If it is sold to top management, they will take a hand in trying to get it into operation. It will not be nearly as successful this way, as if sold to the people directly concerned in carrying it out, but if they have orders from the top to do it, then perhaps you

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can go to work on them again and perhaps you can ultimately convince them that it is worthy of their voluntary support.

Statement from the Audience: I think that if the office manager has a story and his reason properly prepared and presents it to management, and shows management that there is a profit in what he is trying to put across, management, if it is sufficiently interested in obtaining that profit, will accept what the office manager suggests.

If that office manager has the very best idea, but cannot present it properly to the management, management will not accept it.

I disagree with one particular phase of the discussion—that dealing with incentives. In my opinion, an incentive is a wonderful thing, where the person who produces the item finished that item also, and no one else has to pick it up, but where you use incentives and you pass it on to somebody else to work on, I am afraid incentives beget selfishness and dishonesty.

Again, industry is interested in profit; and if the person who produced more by an incentive plan has turned it out in such a condition that eventually along the line somebody has to exert extra efforts which will slow them up, or repeat part of the work that was done selfishly, under the incentive plan, then I think industry has lost.

Question: Dr. Maze, you emphasized the importance of organization in the office, and I inferred from what you said in your comments that the office manager should report to the comptroller. Is that correct?

Dr. Maze: I referred to the office manager reporting to the comptroller, because in a study of a good many medium sized companies that seems to be the case.

The comptroller is the head of a group of closely related functions which deal with the records, such as customer invoices, purchase records, and things of that sort which, in part, may be under the office manager's jurisdiction. So, from the standpoint of the coordination of these record activities which are interdependent among themselves, it seems desirable to group these functions together. Ordinarily, I think we could refer to them as the standards and records functions, all of which need an executive for their direction and technicians to head them up.

I believe that in the average and smaller sized companies, that centralization of office management activities, to some degree, is desirable. Full centralization is seldom possible. The large concerns are too big to centralize everything under an office manager; they may be centralized, however, on a functional basis. For example, in a large national organization where there are a number of plants and a number of locations involved, standardization of office equipment and machinery may be an important office activity. In the home office there

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will be a functional head of standardization; he will coordinate standardization at the various locations, but the activity will be under the direct control of the office manager of that location, or under some other person who performs the office management functions. It is not always the man with a title of office manager who handles office responsibilities. As a matter of fact, probably 30 per cent of the people doing office management work have the title of assistant treasurer or assistant secretary and, in some cases, accountant.

I like to think of the comptroller as the man in charge of the internal records of the corporation as distinguished from the treasurer, who is sometimes the financial executive and sometimes merely responsible for the receipt, safekeeping, and disbursement of company funds. It does not seem logical to me for the office manager to be under the treasurer, unless he is an operating executive rather than a corporate official, such as he is in a great many cases.

As far as the internal organization of the office itself is concerned, there again, I think the extent to which functionalization is carried must depend upon the volume of work and the number of people concerned. Whenever possible, I think we ought to take as full advantage of specialization as may be profitable. That means that we have to sort out the functions.

One of the most common sources of waste in the office is the illogical grouping of activities. It stands to reason that if a person does one or two things all day, he will do each of the two things far better and gain greater efficiency in their performance than would be the case if he had to do eight different things during the course of the day. In other words, if you have stenographic work to be done, try to keep your stenographers doing stenographic work insofar as possible. When that is not possible, then assign them to the most closely related work that you have — typing, perhaps, as the first thing that goes along with stenographic work. But to have two stenographers in a department, each one of them doing some stenographic work, some filing, some clerical work of various kinds, seems to me to be a waste of specialized and trained personnel.

If your salaried classification is as good as it should be, there will be variations in the value of those jobs; and there is seldom any economy in having the brickmason mix his own mortar. If the job is very small, we have to sacrifice specialization because of size or volume, but as the volume increases we endeavor to take advantage of specialization. That means breaking the office activities up into their logical functions and organizing them as such.

AMERICAN BUSINESS POLICY SESSIONS

December 12 - 13, 1945

THE EFFECT OF THE REVENUE ACT OF 1945 ON BUSINESS AND CORPORATE POLICIES

- Chairman:** Joseph S. Bowater, Secretary and Treas.
Mathews Conveyor Company
- Speaker:** J. K. Lasser
J. K. Lasser and Company
- Discussion Leader:** Paul W. Ellis, Professor of Economics
Bethany College
-

THE ADAPTATION OF OFFICE PRACTICES TO PEACETIME PRODUCTION

- Chairman:** Ernest M. Ikirt, Assistant Treasurer
Republic Rubber Division,
Lee Tire and Rubber Corporation
- Speakers:** Coleman Maze, Professor of Management
New York University
- D. H. Fulton, Office Manager
Eastman Kodak Company
-

FINANCIAL POLICIES ESSENTIAL TO FULL PRODUCTION

- Chairman:** L. M. Hostetler
Federal Reserve Bank of Cleveland
- Speakers:** Murray Shields, Vice President
Bank of Manhattan
- Russell Weisman
The Cleveland Plain Dealer

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AMERICAN BUSINESS POLICY SESSIONS

MARKETING PROBLEMS THAT LIE AHEAD

Chairman: C. G. Nichols, Vice President
The G. M. McKelvey Company

Speaker: Arthur A. Hood
Director of Dealer Relations
Johns-Manville Sales Corporation

Discussion Leader: Warren Leigh
Professor of Marketing
University of Akron

ECONOMIC FACTORS INFLUENCING THE PRODUCTION OUTLOOK FOR 1946

Chairman: Jacob C. Wachtman, Vice President
Greater New Castle Association

Speakers: Charles M. Thompson
Dean Emeritus
College of Commerce and Business Administration
University of Illinois

Clinton S. Golden
Assistant to the President
United Steelworkers of America

STABILIZATION OF PRODUCTION AND EMPLOYMENT

Chairman: Brown Zahnizer, Vice President
Shenango Pottery Company

Speakers: Arthur Stone Dewing

Rolf Nugent, Deputy Chief
Bureau of Supply
United Nations Relief and
Rehabilitation Administration

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AMERICAN ECONOMIC POLICIES SESSION

April 25, 1946

THE GUARANTEED ANNUAL WAGE

Chairman: Donald V. Sawhill, President
Mercer Tube and Manufacturing Company

Speakers: Stephen McK. DuBrul, Director
The Labor-Economics Section
Personnel Staff
General Motors Corporation

A. D. H. Kaplan, Member
Research Staff
The Brookings Institution

Boris Shishkin, Economist
American Federation of Labor

INFLATIONARY PRESSURES IN THE POSTWAR PERIOD

Chairman: John H. Evans, Vice President and Trust Officer
McDowell National Bank

Speakers: Emerson P. Schmidt, Director
Economic Research Department
Chamber of Commerce of the United States

Raymond Rodgers, Professor of Banking
New York University

James G. Rogers, Jr., Deputy Administrator
Office of Price Administration

May 16, 1946

COMPANY AND UNION RESPONSIBILITIES AND LIABILITIES UNDER THE LABOR AGREEMENT

Chairman: J. C. Argetsinger, Vice President
The Youngstown Sheet and Tube Company

Speakers: Samuel Marsh, Attorney-at-Law

Kenneth A. McIntyre
Kenneth A. McIntyre Associates

PROBLEMS OF INDUSTRIAL PEACE

Chairman: A. M. Paxson, Director of Education
The Economic and Business Foundation

Speaker: George W. Taylor, Professor of Industry
University of Pennsylvania

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Stabilization Of Production And Employment

By

ROLF NUGENT
ARTHUR STONE DEWING
BROWN ZAHNISER

OPENING REMARKS

By

BROWN ZAHNISER

Vice President
Shenango Pottery Company

Recently, in a discussion on world peace a friend of mine said, "Unless you and I and the people we know can sit down and look at all sides, solve this problem intelligently, fairly and conclusively, there is no real hope that it can ever be solved."

The growing trend in specialization has, it seems to me, discouraged the average layman in thinking for himself. You and I want to discuss a problem in the terms of the latest pronouncements from the expert and let it go at that; but back of what my friend had to say was a distinct challenge that these modern problems — and they never were so serious — obligate every one of us to think about them, to discuss them, to help solve them and pass them on as education to others.

The Economic and Business Foundation has intelligently organized some of this need by providing, first, men to give you a well-rounded picture of the problem and, second, an opportunity for you to clear up your questions during the discussion period. But, this is not enough. The urgency of the problems require that you help and particularly that you pass on your thoughts and ideas which these meetings stimulate.

Our subject tonight is, "Stabilization of Production and Employment." Not one of us is so young as not to have been affected by the depression. Its miseries spread all over the world. Many people feel that it was a major cause of the last World War and because of its size and extent, that depression had and has worried all of us. In fact, we have assumed — because its problems are still unsolved — that there will be another depression in a very few years.

What can we do to prevent the next one? What can industry do? What can be done by a change of methods of distribution? What can be done by government? What can be done by international co-operation? Or better, by world federation? These are a few of the general things that we should know more about after tonight.

Dr. Rolf Nugent, personnel director, accountant, lecturer, Deputy Chief of the Bureau of Supply, United Nations Relief and Rehabilitation Administration, will discuss the consumers' and distributors' part in stabilization.

Dr. Arthur Stone Dewing, corporation president, Fellow of the American Academy of Arts and Science, will discuss the financial problems involved in stabilization.

ADDRESS

By

ROLF NUGENT

Deputy Chief
Bureau of Supply
United Nations Relief and Rehabilitation Administration

Consumption is the ultimate objective toward which all economic activity is directed.

If you should ask whether this statement is true or false, you would probably get an answer "true" from everyone, whether he be one of the learned folk of "Information Please," one of the precocious "Quiz Kids," the Main Street groceryman, or the side-street housewife.

It would be difficult to find any economic authorities to the contrary. The dominant role of the consumer in the economic process was proclaimed by the classical economists, and reasserted with footnotes and italics by the neo-classicists. It underlies Lord Keynes' central concept of the propensity to consume; and it forms the solid core of the Marxian theory of the crisis.

The businessman, too, does not need to be convinced of the consumer's importance. He is engaged in a constant struggle to guess what the consumer wants or can be encouraged to want. And the records of the bankruptcy courts and of corporate charter lapses are full of evidence of what happens to business enterprises which fail to follow the dictates of that hard-hearted taskmaster, the American consumer.

Yet the consequence of the consumer's dominant role in economic activity under present conditions have not, I fear, been fully appreciated. We know too little about the spending and saving habits of the consumer. But in the mounting pile of literature analyzing postwar economic conditions, what we do know about consumption has, I believe, been given entirely too little attention.

In the time that I can reasonably take from your busy program, I shall undertake first to list five facts about the consumer that I believe to be important and to indicate my own view of their significance for the problem to which we are addressing ourselves — that is, the maintenance of economic stability with reasonably full employment.

The first fact to which I want to call your attention is the rise in disposable incomes that has occurred during the war. By "disposable incomes," I mean the incomes which you and I and all other individuals receive as salaries, wages, commissions, dividends, interest, and rent and have to use as we wish, after we have paid our income taxes to Uncle Sam and to the states in which we reside.

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Disposable incomes totaled 67.7 billion dollars in 1939. Thereafter they increased progressively to 72.9 billion in 1940, to 88.7 billion in 1941, to 110.6 billion in 1942, to 124.6 billion in 1943, and to 137.5 billion in 1944. It seems probable that total disposable incomes for 1945 will be something like 145 billion — more than double the pre-war figure.

The change is more strikingly illustrated by putting it in terms of family incomes. In 1939 the average family income was just under \$2,000. In 1945 it will approximate \$4,000 for a somewhat larger number of families. Even when we adjust these figures for changes in the price level, it will be seen that real family incomes have risen on the average by roughly 75%.

The second fact is that the percentage of income devoted to current necessities declines as incomes increase. This fact is so obvious that it scarcely requires demonstration. It may be illustrated, however, by figures for expenditures for consumers' non-durable goods and services. In 1939, 82% of the total amount of disposable income went for non-durable goods and services. By 1944 this percentage had been reduced to 66%. Expenditures for services were held down, of course, by the increasing shortage of household servants as the war progressed. Nevertheless, these figures certainly understate the extent of the decline in the portion of consumers' budgets that went for everyday necessities of life, since the principal outlets for luxurious spending of wartime incomes were in the fields of non-durable goods and services.

Conversely, it can be stated that as individual incomes rise larger and larger percentages of the total disposable income may be spent for luxuries, for consumers' durable goods, such as automobiles and household equipment, or may be accumulated as savings.

The third fact is the increased rate of saving. The rate of saving—that is, the ratio between disposable incomes and the amount saved by individuals—averaged about 7% during the latter half of the 1930's. It rose to 8.9% in 1939, to 10% in 1940, to 16% in 1941, to 26% in 1942, to 27% in 1943; and to 29% in 1944. Recent estimates by the Securities Exchange Commission suggest that, in spite of the end of hostilities, the rate of savings in 1945 will approximate the extraordinarily high figure reached in 1944.

Even more dramatic than the increase in rate is the growth in the absolute amount of savings. In 1939 the annual volume of savings was about 6 billion dollars; in 1941 it was 14.2 billion; and in 1944 it was just under 40 billion dollars—almost seven times the volume of savings in 1939 and more than four times the volume in 1929 which was the all-time peak in our pre-war history.

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The fourth fact is that very little of the huge hoard of savings—the accumulation totals about 150 billion dollars since the war began—will come into the market for ordinary consumers' goods and services. Some of these savings represent the accumulation of depreciation reserves against worn-out durable goods and we can expect some withdrawals of savings to replace these goods. But most people will buy automobiles and household equipment out of current income on time payments rather than tap their accumulated savings. In general, these savings are held as security against rainy days and against dependence in old age. McCall's Magazine has, I think, properly labeled these savings as "\$125,000,000,000 worth of umbrellas."

A final fact is necessary to complete the list which will enter into my discussion. It is this: Households, like business enterprises, treat certain outlays as capital expenditures. Just as a manufacturing concern may build a new plant, charge the outlay to capital account, and meet only current depreciation reserves from current income, so also the consumer may acquire a home, an automobile, a refrigerator, a television set, or some other relatively high-priced consumer's durable goods without considering the purchase price as a current expenditure. He may meet part of the purchase price by a withdrawal of savings. But more commonly he buys the goods on the installment plan. In this way, a major part of the initial outlay is effectively capitalized and only the periodic installments—the rough equivalent of the plant's depreciation charges—are treated as expenditures to be met out of his current budget.

Let me recapitulate these five facts:

1. The increase in real disposable family incomes by about 75% since 1939.
2. The decline in the percentage of incomes required for necessities and, conversely, the increased percentage available for luxuries, for consumers' durable goods, and for savings.
3. The more than three-fold rise in the rate of saving.
4. The reluctance of consumers to tap their large accumulation of savings except for emergencies.
5. The existence of a form of household investment similar to business investment.

What do they mean—these facts? What is their significance to the problem of maintaining full and stable employment?

Two conclusions seem to me to be inescapable: (1) that the consumption is bound to be an increasingly unstable factor in the whole business picture; and (2) that we face the probability in the not-very-

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distant future of a chronic deflationary tendency that will have as its symptoms low business profits and substantial unemployment. With the remainder of my time, I shall attempt to explain why I arrive at these conclusions. I know you will excuse me if, in the interest of brevity and simplicity, I take some short-cuts in order to avoid elaborate theoretical analysis.

First, as to the conclusion that the consumption is going to be increasingly a factor for instability. Note, in this connection, the rise in disposable incomes; the increasing percentage of family budgets that can be devoted to luxuries, consumers' durable goods, and to savings; and the treatment of purchases of consumers' durable goods as capital expenditures. Instability of consumer demand is, I fear, the inevitable consequence of high-level consumption. It seems to be part of the price — I am afraid that there will be other costs — of an economy of abundance.

There was a time in this country's history when the incomes of the bulk of people were so near the level of sheer subsistence that pressing wants brought the overwhelming part of their wages and other incomes back into the market promptly in the form of expenditures for the necessities of life. The small margin for savings that existed in family budgets was in great demand to furnish additional livestock, agricultural equipment, and buildings on farms, to supply homes for a rapidly growing urban population, and to build highways, railways, factories, and public utilities.

The gradual emancipation of the American consumer from close-to-subsistence living standards has been in progress a long time. But the most rapid progress has been made during and following the first world war and during the present war. The recent wartime expansion of real incomes has, however, been unparalleled in the sense that it occurred at a time when incomes were already high, judged by previous historical standards. This was in spite of the drain of the war on our resources. If we are to use fully our energies, skills, and our magnificent plant, the expansion of real purchasing power will have to continue still further in the period that lies ahead.

With respect to the major part of his income, the consumer is no longer under urgent pressure to spend for current necessities. With the large, and probably increasing, part of his income that is still available after his necessities have been met, he is free to buy now, to buy later, or to refrain from buying and put his money into savings. Given a \$50 margin in his monthly budget, he is equally free to buy a \$50 dress for his wife or to use the same sum as the initial payment on durable goods of substantially greater value.

The economic consequences of his series of choices differ substantially. If he decides to save, the total flow of income funds is re-

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duced by the amount of the saving; if he decides to spend it for \$50 worth of goods, the funds paid to him are fully restored to the income circulation; if he decides to make a down-payment on a car, unless Regulation W interferes--and it would not interfere if there were a trade-in--the income circulation would be substantially expanded. It should be noted, however, that subsequent installment payments have the same economic effect as savings.

The most disturbing characteristic of this new freedom on the part of the consumer is not that he has these choices, but that consumers as a whole are likely to swing from one choice to another en masse. The strongest and most immediate stimulus to human action is fear. If there are clouds on the business horizon, and there are threats to the continuity of incomes or employment, consumers are more likely to decide in favor of deferring avoidable expenditures. This is particularly true of installment purchases, since the consumer's ability to perform on time-sales contract, which determines his retention of the article subject to purchase, depends not on his present situation but upon his prospective income throughout the period covered by the contract.

Moreover, man is a social animal and the instinct of the herd is still strong. When John Jones and Bill Smith decide to buy a new car or a new refrigerator or a television set, Tom Brown and Sam Johnson are likely to do the same, either of their own volition or as the result of pressure from their wives and children.

It should be noted that most purchases of durable goods are for replacement. Hence it is generally not a question of acquiring or doing without the services of such goods, but of appraising the merits of a shinier or more modern or less troublesome substitute for existing equipment, in the light of all the hopes and fears and social pressures which surround his family life.

When initial installment purchases are bunched, a substantial stimulant is given to the whole economy because the total funds put into the income circulation exceed the amounts treated as expenditures by the buyers. On the other hand, during periods when there is a reluctance to assume obligations for future installments, payments on existing obligations take funds out of the income circulation and exert a depressing influence on business conditions. Although treated by the purchasers as current expenditures, such payments are completely sterile in their efforts upon the income circulation. Thus, the reactions of consumers to doubts concerning the future may be the means of precipitating the circumstances which they feared, or of exaggerating and accelerating an unfavorable business trend.

By virtue of the tremendous backlog of demand for automobiles, refrigerators, washing machines, and certain other household appliances, I would expect the demand for these goods to remain consist-

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ently above production capacity at least for the next five years. Consequently, the effects of the enhanced freedom of choice between installment commitments for high-priced goods and purchases of other goods with current income funds will be postponed for some time. But it is a major factor to be reckoned with before so very long.

In the meantime, the choice between spending for current luxuries and saving is likely to produce all the ups and downs that harassed businessmen can take in their stride. We would be wise to use this period when only this choice of the emancipated consumer is here to plague us to perfect our techniques for dealing with the far more volatile situation that is bound to develop when the backlog of demand for consumers' durable goods has been worked off.

Now as to the second conclusion—that before very long we shall face a chronic deflationary tendency which will have as its symptoms sagging prices, low business profits, and unemployment.

I adhere to the school of economic thought which believes that unless savings are returned to the income circulation by investment the subsequent flow of money incomes will be reduced, dollar sales volume will drop, prices will sag, or inventories will accumulate, profits will dwindle, and production will be curtailed. If this thesis be correct—and I think it would find a considerable degree of acceptance among economists—then it is of crucial importance to ask how the volume of savings is likely to compare with the volume of investment.

The extremely high level of savings at present is to a considerable extent a wartime phenomenon. It has resulted in part from the will of the American people to contribute to the war effort by buying bonds and from the pressures put upon them to do so. It results in part from the disappearance from the free market of automobiles, refrigerators, washing machines, radios, pianos, and similar goods, which would have absorbed substantial consumers' expenditures had they been available.

But the increase in savings is also due in considerable part to the increase in incomes. We know that the rate of savings is directly correlated with incomes — when incomes rise people tend to save not only a greater amount but a greater percentage of their incomes. Almost all of us want economic security. But as long as incomes are close to the subsistence level, the desire for security against rainy days and old age competes rather ineffectively against pressing wants for current goods and services. When incomes rise well above the level necessary to provide current necessities, however, future security competes on increasingly favorable terms with additional quantities of current goods and services for a share in progressive increments of income.

We will probably never know with any degree of accuracy what influence to assign to each of these causes of increased savings. I am inclined to believe that the pressure for war bond purchases, while

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substantial in its effect, was the least important of the three causes. The primary cause, I believe, was the desire for security and the enhanced ability to attain it in some measure by virtue of increased incomes. The lack of consumers' durable goods was, I believe, the second most important factor.

The pressure for war-bond purchases will, or at least should be, discontinued in the near future. Before long, we all hope, automobiles, refrigerators, and the many handsome and ingenious gadgets that have been promised us by war-employed manufacturers will be available to attract consumers' dollars that now go into savings. I do not believe, however, that the rate of saving will be reduced to the pre-war level. Limitations of production capacity will limit the sums which consumers can spend on durable goods. More important, the desire for security and the ability to save will continue, strengthened by saving habits developed during the war. Unless there is a severe drop in the national income, which would be politically and economically indefensible, I would expect the rate of saving to remain somewhere in the neighborhood of 15% of disposable income for several years. This would mean an annual volume of savings of roughly 20 billion dollars.

If the flow of money incomes is to remain constant or to increase in the face of a 20 billion dollar annual volume of savings, the volume of investment must approximate or exceed 20 billion dollars. This is more than twice the largest volume of business investment that has occurred in this country during any pre-war year.

The reconversion from war to peacetime business will undoubtedly lead to a tremendous investment in new plant and equipment and increased inventories by private enterprises. A recent census by the Department of Commerce indicates that during the first postwar year, the planned capital outlays of manufacturing enterprises, public utilities, and railroads will approximate 8.8 billion dollars. Distributive enterprises and service industries undoubtedly contribute substantial additions to the volume of business investment.

The consumer himself, as I have already indicated, is likely to be an important factor in determining the volume of investment. Restrictions on residential construction during the war have built up a backlog of demand for new houses that would be substantial even if there had been no change in incomes. And the increase in incomes means that millions of families will be in the market for better homes.

The same thing can be said of the field of consumers' durable goods in general. Conversion of automobile, refrigerator, and washing machine factories to war production has built up an enormous replacement demand, to which can be added large numbers of new buyers brought into the market by increased incomes. It seems likely that the volume of net investment outlays for new homes and for consumers' durable goods will come close to 10 billion dollars for the first full production year.

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States and municipalities have delayed certain capital expenditures during the war, and they too will contribute to the total volume of investment.

To these prospective investment expenditures must be added the procurement programs of foreign governments with cash held on deposit here or with the proceeds of loans.

But when the maximum investment expenditures that can be anticipated in each field during the first peacetime year are totaled, they do no more than approximate the volume of individual savings that can in my opinion be expected. And it is difficult to see how this volume of investment can be maintained for very long. Department of Commerce surveys indicate a decline in private business investment between the first and second peacetime year. The volume of sales of homes, automobiles, and other consumers' durable goods is unlikely to slacken off. But given a stable volume of sales, the volume of installment payments on previous purchases will offset the investment effects of new purchases very largely during the second postwar year and even more completely in subsequent years. Consequently, the net volume of consumers' investment outlays is bound to decline. Thus even though the volume of savings should be fully offset by investment during the first postwar year, it is less likely to be offset during the second postwar year, and still less likely to be offset during the third postwar year.

It is beyond the scope of this speaker to indicate the remedies that must be applied if the consumer's increased freedom of action is not to get us into trouble. But I hesitate to conclude without offering an opinion as to the directions in which they should be sought. First, I think we shall find ourselves obliged, whether we like it or not, to rely on the federal government increasingly to offset the vagaries of consumer action. No private enterprise or group of enterprises can stem the tide if, when incomes begin to decline, the consumer decides to stop buying homes and automobiles and to increase his savings. The only possible offset would be the prompt creation of a substantial federal government deficit. It needs to be pointed out, however, that this can be accomplished as effectively by a decrease in taxes as by an increase in expenditures, and with much less disturbance to the private economy.

I do not fear, as many people do, a chronic federal government budget deficit, if this is necessary to prevent deflation. There are, however, other lines of attack on the problem. For instance, the propensity to save could probably be reduced by providing more adequate old-age pensions for all and by providing additional types of social insurance to cover the emergencies for which people save. Tax reform is another important line of attack on the problem.

ADDRESS*

By

ARTHUR STONE DEWING

Economist

I feel very reluctant to talk to you tonight because I have no panacea with which to counteract the fluctuations of industry. I am one of those old-fashioned, New England Yankees who is interested in observing the operation of economic phenomena. Yet at the same time, I believe that the fluctuation of economic activity are—like the movements of the tides which a Danish king, years ago, tried to stop—phenomena which ebb and flow, irrespective of panaceas, irrespective of the various political nostrums which are offered by clever economists.

I want to call your attention, however, to four elements of the whole economic situation which are, in my judgment, of great importance. Nevertheless they are very simple. These are four elements which, like the poor, you have with you always.

The first of these elements is the structure of human nature. I do not believe the human animal, in his economic reaction, is very different today from what he was when Plato walked across the Acropolis, when Julius Caesar sat in the senate chamber of Roma or when our Teutonic ancestors roamed the plains of northern Europe. The human animal is fundamentally an emotional creature. We pride ourselves on our rationality; we pride ourselves on our ability to be guided by forethought and by reason, yet like the tomcat or the good dog, we follow the same fundamental motives that our ancestors, for untold generations before us, have followed. That, gentlemen, is the first fact I should like you to bear in mind.

The second fundamental and important fact which I want you all to observe is the fundamental origin of that thing which we call money. Money is an instrumentality; it is a means to an end. It comes into existence when the modes of economic procedure reach a stage when the individual who produces an economic good is not the individual who consumes that good.

I am very fond of animals. A number of years ago I was chasing wild lions in central Africa because I was interested in seeing animals and not in killing them. Incidentally, during that trip I came across a race of primitive people living in the central part of east Africa, close to the equator. They are called the Massai. Each male had his stockade with his wives and children. He lived alone. His only economic good was cattle and from the milk and blood of those cattle he lived. He had nothing to exchange; his life was the same as it had been for generations on the plains of central Africa. His economy was of the very simplest character. He had nothing to produce for

*Stenographic transcript of extemporaneous remarks by Dr Arthur Stone Dewing

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anybody else; he had nothing to exchange for the goods of others. The English, under whose dominion he lived, tried to lure him to take jobs by offering him firewater and the various gadgets of our civilization. He had a contempt for them. The life of his forefathers was sufficient for the life of the present; and no money and no understanding of the mechanism of money, or finance was necessary.

But in the highly complicated conditions of our 'present way of living, money occupies a very important role. It occupies a role because there must be an instrumentality whereby the objects of production, produced by one group of people, are transferred into the hands of another group—the consumers. Money is the lubricant which makes possible a highly intricate economic life in which one individual produces things for others to consume.

Finance is a study of money. And one of the fallacies often included in finance, is the presumption that money can, somehow, be artificially produced. It is assumed that it can be produced by operating a government printing press; it can be produced by operating a government bond press, and then permitting the Federal Reserve Bank to transform printed bonds into so-called money. But in the end, the man, the economic creature, who tries to lift himself up by his boot-straps, has a fall. The instrument which we call "money" is the result of a process of saving, not of creation; and its ultimate useable volume is a direct function of the intensity of saving. That is the second fact.

Now there is a third fact, gentlemen. It is another observation bearing on human nature. It is the inclination of the human being to rely on government to rectify ills which are beyond our power and for which he, the individual, if anyone, is responsible. In the complicated conditions of our modern life there has grown up what one might call a folklore of politics. A part of this folklore is the assumption that certain politicians — who, for the most part, could not earn an honest living in productive enterprise — can somehow, through some formula, produce a means or rather, a mechanism, whereby the operation of economic laws and the laws of human nature can be set aside. One cannot measure the intensity of this belief. In the presence of a depression, it is very strong. During a period of prosperity, the general feeling is — let well enough alone, do not meddle with things.

Of course, there are waves of confidence in the potency of political power. Just what the situation is during the present period, one cannot tell. What exactly is the final build-up of the present, is something that one cannot forecast. At any rate, in dealing with a consumer's problem of the immediate future, we have to take into consideration the potency of the feeling that governmental action can affect economic laws. So much for the third factor.

The fourth factor that I should like to bring to your attention is what one might call the desire on the part of all of us to avoid that

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thing which we call a depression. Whether we do it by means of saving, whether we do it by means of the accumulation of a reserve in the form of goods, or whatever the course we follow, there is present in the minds of all of us a feeling that somehow we can do something to avoid a depression.

Now, let us see the application of those four factors to the ordinary mechanism of production. In order that goods shall be produced, there has to be somebody who is lured into the production of these goods and at the same time, who is willing to take the risk of exchanging these goods for money after he has incurred the cost of producing the goods. Somebody, some individual or group of individuals or a fictitious individual we call a corporation, has got to say to himself or itself, "I will take some savings which I, myself, have accumulated or which I have borrowed and will be responsible for, and I will build a factory and I will construct pieces of machinery. I will then buy some new materials, I will pay the wages of my helpers and I will produce something which I think people will want and will be willing to exchange for more money than my cost of production."

In other words, one is lured into the production of goods by what we can call the "stimulus of profit"—to use the phrase the economists have coined. At all events it is confidence; it is confidence on the part of an individual who is willing to build his factory, to implement his machinery, to pay somebody for producing goods before he has actually received the full compensation for the various costs, together with a profit, from the ultimate sale of these goods.

In order to make this transition from the producer to the consumer possible, money exists. There must be a means whereby the benefits of consumption are translated into money terms, they must be passed back to the previous period of production. Those benefits which accrue from the use of an automobile must somehow be passed back to the man who built the factory walls, who smelted the iron to produce the steel, who paid the labor to put the various parts of the automobile together. Ultimately, the human being, the person who has had the satisfaction of the automobile, the consumer, will pay the aggregate of these production costs. But there has to be an instrument to motivate this process. Money is this instrument.

Now, if for some particular reason, the smooth and regular movement back to production of the benefits of consumption is stopped, then there is a break in the process. There is, as it were, a temporary stagnation. Then man who undertook the process of production stops his effort. If the consumer does not want his goods and is unwilling to repay him the costs of production, he has no means whereby he can pay off the next shift of people who are about to produce more goods. There is a paralysis in the process of production.

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Ultimately, in the last analysis, this is the condition that produces alternations of booms and depressions in our modern world. In the ancient days, seven bad years followed seven good years, but in ancient Egypt we are observing an agricultural economy. Periodically the forces of nature intervened and stopped—paralyzed—the process of the production of agricultural goods; producers of these agricultural goods found themselves without produce to sell to the consumers. In modern times, however, we have built an artificial staging above the agricultural economy, so that the first impact of a paralysis of this process occurs in the upper layers of the economic pyramid.

It occurs in the production and consumption of manufactured goods. We might even go further than that and suggest that the first indication of maladjustment between production and consumption would occur in certain forms of producers' goods far removed from the ultimate consumers' goods; but I do not want to go into detailed discussion as to which particular industry or which particular type of industry first feels the impact of the coming paralysis. Nevertheless, it will occur somewhere in the organization of industry. It has occurred ever since the seven good years have followed the seven bad years; whether we are concerned with the simple agricultural economics of ancient Egypt or the complicated economics of twentieth century America.

There are records which indicate that ages ago, in ancient Babylon, there was what we call a depression. The ancient Babylonians prayed to the Goddess Ishtar, the moon goddess, and they prayed to their king, for relief from the depression. There was starvation and there was want; but presently a new crop came and the depression was relieved. There are references to a succession of depression periods and periods of plenty during the centuries of Imperial Rome, and during the middle ages. In Elizabeth's reign, in England, there were booms and depressions and you all know of the alternations of periods of affluence and periods of depression that characterized the eighteenth and nineteenth centuries and the forty odd years of our present century.

The great difficulty with the present situation is that we have built up in our minds a feeling that somehow there can be interposed, in the operation of this economic succession of affluence and depression, a political factor. We delude ourselves with the fact that somehow these wise gentlemen in Washington can do something to alleviate this situation.

At the expense of considerable effort—statistical work—I thought I had proved to myself that the existence of the Federal Reserve System aggravated, rather than smoothed, the depressions following the years of 1920 and 1929. Many people would differ with me, particularly because of their economic slant. Nevertheless, when the establishment

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of the Federal Reserve System was under discussion by the economists—back in the period between 1909 and 1912—the great reason alleged to justify the organization of the Reserve System was the belief and the hope that it would smooth out the succession of panics and depressions. Some went so far as to say the Federal Reserve Bank would be a complete remedy. Yet we have had, in the years since the establishment of the Reserve System, periods of affluence and periods of depression even more extreme than the fluctuations in the years before. Undoubtedly, within the next year or two, various other devices, including some political remedy, will be conceived by the politicians and the clever economists in Washington. This will be offered as a permanent panacea for these industrial fluctuations.

My own feeling is, gentlemen, that the more one interferes with the economic background, the more likely, the more extreme, will be the fluctuations. The real panacea to prevent a depression is the realization on the part of everybody—the fear, if you wish to call it—that such a thing will take place and will take place soon.

If the public believes and feels that the government can step in and somehow prevent a depression the individual loses a sense of responsibility. He assumes no individual responsibility for guiding his own conduct. Now, today, if the individual takes no heed and assumes no responsibility, the depression that will inevitably follow the present boom will be more serious than anything we have had in the past.

DISCUSSION

Question: This is directed to Dr. Nugent. You quoted figures about increased disposable income and savings back in 1944 and 1945. Do you think that was due to men working anywhere from 48 to 72 hours per week, instead of the regular 40-hour week? I think if you were to take the figures at the beginning of 1945 and compare them with the figures for the last few months of 1945, you would find a big difference.

Dr. Nugent: Figures for the last few months of 1945 are not now available, but I think a substantial decrease is anticipated. You may recall that I said I was assuming that there would be not a substantial decrease in the national income, but it is possible that there may be, however, I also think it would be inexcusable if it should happen.

Question: I inferred from the discussion that Dr. Nugent felt that that the desire on the part of individuals to save for "rainy days" was a major cause of business fluctuations, and I inferred from Dr. Dewing's comments that one—if not the major—causes was the coming and going of the profit prospects and their effect on businessmen, who varied their production rather substantially, in accordance with their prospects for profit.

If these assumptions are correct, is there a conflict, and if so, can it be reconciled?

Dr. Nugent: I should say that the real problem is what causes the declining prospects of profit and at that point, I should look to the consumer. I would look to changes in his propensity to consume and his view of the prospects ahead.

Just to sharpen up the issue, I should like to point out that the depressions to which Dr. Dewing has pointed are cycles of famine, of drought, and of rainfall. That is quite a different sort of thing from the trade cycle, as we now know it.

You people here in Ohio who went through the depression of 1929 to 1934 or 1935—wherever you want to put it—were fully able to produce. There was no drought in steel; there was no drought in labor; there was no drought even in your crops. The problem was that something had gone wrong with the financial mechanism.

I am a research man. I should like to sit by and watch and see what happens, but I do not think we Americans can afford to do that in the period that lies ahead.

Dr. Dewing: I have no intention here of trying to reduce the swing of the economic pendulum to questions of rainfall or to the succession of sun-spots, which is a favorite theory with some of my economic friends. The depression of the early twenties, the depression of the thirties are very different indeed from the depression that afflicted ancient Egypt, that afflicted the Roman empire; but I call your attention to the fact that the economy which prevailed in ancient Egypt and in the Roman empire was very different from that which prevails at the present time.

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In the old times, the major or the controlling element in the economic situation was the supply of food. During the period of the Fourth century, B. C., there was developed a very extensive manufacturing business by merchants in Athens, whereby weapons and vases, particularly, were exported to the far reaches of the Black Sea and to Italy; they were carried by the Phoenicians around the pillars of Hercules. But the export and import of merchandise was a small element in the economy of any period in the ancient world. It was, when all is said and done, a food supply economy.

Consequently, the periods of abundance of rainfall and sunshine can be statistically correlated with the periods of affluence and depression. But, we have built in the Twentieth Century, an economy in which a very large proportion of the people who work, work not in the production of food. They work as contributing factors, as cogs, in the process of producing goods which are controlled by an individual—natural or artificial—who hopes and believes and is confident of obtaining a profit from selling these goods to ultimate consumers.

The farmer on the plains of North Africa did not raise his produce for the purpose of producing a profit in the sense that the economist uses the "profit"; but the John Jones Company, which manufactures ice cream freezers in St. Louis, to be sent all over the United States, to be sent to the Argentine and to the Far East, makes those ice cream freezers solely for the purpose of producing a profit. He builds a factory to produce, with the expectation that in the end a profit will accrue to him; and when for some reason, or some combination of reasons, it appears that no profit will come to him, then he stops the process of production. We are dealing with what you might call an economic situation in 1945 very different from the economic situation that existed in the time of King Henry VIII, that existed in the time of Elizabeth. The panics, the depressions in Elizabeth's reign have been studied with very great detail, but this detail throws little light on the present.

There is a transition period between the agrarian economy of the earlier years and the manufacturing exchange economy of the more recent years. Any of you who are interested in statistical research on this problem, the panics, would do very well to study the successions, the causes of the succession of booms and depressions that existed during the last half of the 17th Century in England.

In answer to this gentleman's question: As things have now developed, he is right in stating that the employment of the profit motive in the economic organization of our present industrial economy is the chief, but I do not say the only motive. It is the chief factor, or rather the elementary motive underlying the successions of booms and depressions, with which our economic order seems to be cursed.

Question: In Dr. Dewing's opening remarks, he called attention to the fact that it was his belief that in spite of the fact that we pride ourselves on the fact that we are reasoning individuals, we are swayed

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more by our feelings, our sentiments and our emotions, than by any other factor. However, in the discussion of depressions and booms, it seems that the reasoning process is being followed. It seems that there are reasonable explanations as to why there are depressions and why there are booms.

It is possible that those who would do something about the control of depressions and booms might be approaching the problem from the wrong viewpoint. Is it possible that controls are being set up on the factors of reason without an understanding of sentiments and emotions which might be cyclical, as well as the tangible things, finance, crops, sun-spots, and what not?

Dr. Dewing: I should say in the affirmative, we are dealing, when we come to study depressions, with no insoluble problem. Study the plays of Euripides and you find profound insight into human nature; study the plays of Shakespeare and you find insight into the motives behind human action which are as fundamental as anything you find at the present time. I think you will find Euripides and Shakespeare as acute and as skillful and wise students of human emotions as anybody who is living at the present time.

In other words, we think we have made magnificent strides in such highly rational fields as the sciences. Well and good, let that pass. We have made very, very little progress in our understanding and control of the fundamentals of human action.

Question: Would you treat a depression similarly to a case, let us say, of measles or smallpox, that is left to run its course?

Dr. Dewing: I suppose there can be various antitoxins, and so on, that can be injected into the human system to avoid measles and smallpox.

I do not know of any hormones or antitoxins that can be injected into the economic organization to prevent or cure the diseases which I refer to.

Dr. Nugent: I should like to make this comment: the facts of economic life indicate some relationships to the diseases. I think that we have gone through national periods of paranoia and schizophrenia and one must look to the psychologists for the explanation of some of the phenomena of economic life. Certainly, we should look also to the sociologists, but in the inter-relation amongst the economists and the psychologists and the sociologists, I think we will make some progress.

Question: Dr. Dewing, would you prefer to go back to a simple economic structure, or would you rather take the complex financial structure, with all its troubles?

Dr. Dewing: I would think—I and most of us would be happier with the simple economic organization. The happiest people I have

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seen in the world are the people who live, at the present time, under an economic organization far simpler than ours. I used to spend each winter in Southern Europe, particularly in the Balkans and Greece. There we have an economy that is described in the Bible. It is far closer to the economy of the Bible than it is to the economy under which we are living. The Greek peasant is a far happier man, in the vast majority of cases, than the slaves of modern industry. And this is what we are, whatever cog in the machine we represent.

The same thing I think would apply to some of the primitive people in Central Africa. If the white man had not brought his fire-water and his diseases, the primitive negro would probably, in his simple life, obtain a degree of happiness far greater than we, in the vast average, obtain.

You asked me a personal question, and I have tried to answer it.

Question: I should like to address a question to Dr. Nugent. In his paper, he made a statement about the considerable increase in the disposable income, as in 1945 and recent years. At the same time, Dr. Nugent, you read in the papers of the various government bureaus, stating that incomes must be increased by a certain percentage to maintain the present purchasing power. May these two statements be reconciled?

Dr. Nugent: I think so, because I assume that action will be taken to prevent a decline in present purchasing power. I was speaking of the rise that has already occurred and, assuming stability thereafter, or relative stability. We certainly are going to have some increases in wages; we are certainly going to get some decreases in taxes. They will balance out the things that offset them otherwise.

Question: Is there not need for the kind of experimenting that was done in the '30's? I think that experimentation was very valuable. I hope we can arrange ways of doing it more skillfully than the way it was done then, but at least I should like to speak for the business of trying.

Our medical scientists are every day risking human lives, whether the patient knows it or not, in experimenting with new techniques, which may or may not work out. If experimentation is to be confined to the physical sciences and economic sciences to be reduced to the role of an observer or an historian, then I am afraid that we will never make much progress in that field.

Dr. Dewing: I believe in trying, but I believe the place to begin to try is with the patient. And I believe that the patient should be fully conscious of the situation, of the disease, and not have a fictitious confidence in a panacea that is to be applied to him from without.

In other words, the individual responsibility of each person and the understanding by that man of the economic laws which confront him, seems to me to be the best approach in the whole situation.

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Question: Dr. Nugent, in your speech, you said something about the individual, because of his limitations, not being able to do much about the situation we are discussing. Would you care to comment further on that idea?

Dr. Nugent: I believe that the trade cycle is to be accredited to monetary difficulties. I believe that the fact is that our money system is now tied to a terribly elaborate credit mechanism which permits expansions and contractions, that the flexibility that was once inherent in the economy is no longer there, by virtue of the law of increasing returns, rather than the law of diminishing returns. I think the line of attack on the trade cycle should be through the monetary mechanism. I have tried to suggest some of the things that might be done.

I believe that government deficits and positive black figures in government budgets are a very powerful weapon to deal with the trade cycle. I think we have had a good deal of experience and a good deal of success with a device that is a very minor device, the regulation of installment selling. It is so minor that I should hesitate to suggest it as more than one of many, many things that might be used to retard and stimulate at the proper times, but I would plead, most of all, for the trial.

I do not believe that we can afford another period of '29 to '33 unless you and I are willing to give up our private economy. I think the record of the states under dictatorship -- and we at least must say that they have a record of full employment -- is too favorable, as against what happens under a democracy, and a free economy.

Question: Dr. Nugent, would you infer that installment selling is wrong and should be curtailed?

Dr. Nugent: No, only insofar as its curtailment or its manipulation might be useful as a means of controlling fluctuations of the trade cycle.

Same Gentleman: I think the records will show over the past fifteen or twenty years that there were fewer losses in installment selling than in anything else.

Dr. Nugent: I think that is correct, but the point is not whether the installment device—which is a useful device today—will stay; the question is whether or not it has an unfortunate effect on trade cycle movements, and I think it does. That does not mean that it is bad and that we will get rid of it, but can we moderate its influence on the trade cycle to some extent? I think, in connection with regulation "W", we have changed human action considerably. It has always been true that consumer credit expanded and contracted when incomes expanded and contracted.

At least, that was true for the last thirty years. It probably was not true earlier than that. Although incomes expanded during the war, installment credit and installment loans declined substantially;

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in fact, they dropped from ten billion dollars of outstanding balances to about three and a half billion dollars of outstanding balances. It is true that a considerable part of that resulted from the disappearance of consumers' durable goods which were traditionally sold on the installment plan. Certainly the decline would not have been so substantial if it had not been for the regulation, because those types of installment credit that were not affected by conversions of manufacturing plants to the war effort also dropped when the regulations were made.

Question: Dr. Dewing, how would you recommend that the individual behave in order to do the best job for us in alleviating the unemployment situation?

Dr. Dewing: Before answering that question, I would like to change an impression, that I might have given, to you in my discussion some fifteen or twenty minutes ago, when the question came up as to whether or not it was worth while trying to alleviate the particular economic ills of the business cycle. I am sorry if I gave the impression that it was not worth trying. My general argument was that the efforts of the politicians to do this thing might very possibly aggravate the disease, rather than cure it.

I remember when I was very much interested in economics as a young man, and I thought I knew a good deal more about economics than I do now. This period included the years 1910, 1911, and 1912. I went to meetings of the American Economic Association, and at each of these meetings there was an elaborate discussion of a proposed Federal Reserve System. My various colleagues would say, "We can alleviate and perhaps do away with the business cycle." That kind of wishful thinking is the thing I am arguing against. It is the presumptive assurance, and confidence in the skill of a group of stupid politicians to bring about remedies which will help this particular disease. I think it is mere wishful thinking for the politicians to create a confidence on the part of the individual that such a policy, such a politically motivated policy, would affect the results.

What I meant by the responsibility of the individual was that the individual should recognize the situation. We have been discussing installment buying. Personally, I feel that installment buying is, on the whole, a bad thing for the economic organization. The individuals who are likely to indulge in it have not the skill to forecast their immediate economic facilities.

The lady, for instance, will buy a new washing machine, not because she has sat down and reasoned that, by means of that washing machine, she can save so many hours of work a day and that saving of that many hours of work per day would accomplish certain desired results. She buys it because a high-pressure salesman sold it to her. He sold her the newness of this gadget; and this high-pressure salesman forced her to sit down in the evening with John and induce him to cooperate with her in mortgaging their future.

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In other words, it is an irrational process, ordinarily, rather than a rational process. That is exactly what I meant by the responsibility of the individual, in appraising the situation, in doing his part to avoid just such things as we speak of.

Dr. Nugent: May I rise for a moment in defense of this great American institution, installment buying. I have often been accused of kicking the installment sellers around — by virtue of my support of regulation "W", and hence I consider it a duty and take this opportunity to say a word on the other side.

I have not seen irrational handling of consumer installment accounts in any degree. In fact, the very fact that refrigerator sales increased during the depression was, to me, a very significant fact that people were calculating the relative savings from that particular device. I think it can be shown in dollars and cents that the installment payments, on a refrigerator, when spread over three years, were less than the cost of ice in the ordinary household, and that was the reason that you could have an expansion of refrigerator sales.

I think the very fact that the great bulk of installment purchases paid out is in itself a sign that they are fairly well contracted. Of course, there are examples to the contrary. I know of high-pressure selling methods to Negroes in New York, which are frightful, and if there is anything I could do to curtail that kind of business I should like very much to do it, but that is not true of installment purchasers generally. They have used their credit with relatively good sense in the general run of instances I have seen, and I have studied thousands of them.

Question: Dr. Dewing, in speaking of the Federal Reserve System, I understand that you were of the opinion that it helped to bring on the depression. Am I correct in this?

Dr. Dewing: What I tried to call attention to was the fact that in the years I referred to, years before the first World War, there was this attempt on the part of economists to sell the idea to the country that they had in the Federal Reserve System, through the control by the Federal Reserve of rediscount rates, a panacea which would perhaps iron out or at least ameliorate the succession of booms and depressions.

As I believed at that time, and as I was convinced later on, by reason of the administration of the Federal Reserve System, which inevitably is a political instrument under our present form of political administration—depressions in the years following the introduction of the Federal Reserve System were aggravated. They were greater than would have existed if the bankers of the country had used their own initiative and caution and not relied upon the Federal Reserve device.

In other words, the economists sold to the country a device for accomplishing something, which in the hands of the politically-minded

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administrators aggravated the very thing it was supposed to ameliorate.

Question: Would you feel differently if the administration of the system were out of the so-called political control?

Dr. Dewing: I would feel differently if it **could** be administered by American initiative.

Question: Dr. Nugent, toward the end of your speech you said that you felt that one of the things which was wrong was that there was too much saving. Later on—unless I misunderstood it—you said, although you did not particularly like the government deficits, you thought they were desirable, rather than just to let the things go willy-nilly. How does the government spending keep people from saving?

Dr. Nugent: There is nothing wrong inherently with saving. The question is whether the volume of saving exceeds the investment outlays which are necessary to put savings back in the market. The problem is one of a balance. Nor does the fact that I say that the volume of savings and the volume of investment is likely to be inadequate mean at all that we are in a declining economy. As a matter of fact, the volume of private investment this year will certainly exceed the volume of private investment in most years of our history and is likely to stay high.

The question is, whether it can offset this tremendous volume of consumer saving that is possible now at current disposable income rates. I believe, as I indicated, that unless these savings are poured back into the market, you get the incipient deflation of, first, declining sales volumes, then declining prices, or increasing inventories and lowered business profits. It is that progression that causes the cyclical decline. It is the interference with the flow of money in income circulation.

I say this with a great deal of humility. I am giving you my beliefs. I do not mean to assert that they are the only beliefs and that good arguments cannot be made to the contrary. I think, on the basis of this thesis, you can explain many of the business phenomena that have occurred in the last few years. I think, under other theories, it is extremely difficult to explain them.

Dr. Dewing: So that there will be no misunderstanding of this thing, I want to say that I agree entirely with what has just been said, but I should like to add, if I may, that the reason why this orderly process is interfered with is something that inhibits or paralyzes the operation of profit motive through the instrumentality of which this flow is controlled, and is lessened or is augmented. Would you agree with that, Dr. Nugent?

Dr. Nugent: Yes, but I think I would attempt to point to the instrumentality that causes it, namely, an imbalance between savings and investment. I am an admirer of Mr. Keynes, as you can see.

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Question: Why does big business, which controls Congress, look with disfavor upon the full employment bill and the health bill and things that will give the common people security, so that they will not have the marked tendency to save?

Dr. Nugent: I made that proposal. One of the means of attack was to adopt measures to reduce the necessity of saving. One of these is called the Old Age Pension. Another would be insurance against the vicissitudes of life, for which people save. There are others. I myself see no harm in accumulating a very large government debt. I see no difference between that and the decision suddenly, to pay Old Age Pensions. They are one and the same in their real meaning. The problem is to keep your tax system geared to your problem, and I think that the larger the government debt, the larger the ownership of government bonds, the more it is possible to get some of these back through inheritance taxes. I think we ought to look again at the whole inheritance picture.

Question: Dr. Nugent, do you argue in favor of the policy which suggests that one "Spend every penny you can get hold of, including your relatives', and the government will take care of you when you get too old to work"?

Dr. Nugent: That is like the fellow who asks if you are against sin. No, I made the point, earlier in my paper, that I thought it was worth noting that you could produce government deficits as readily by decreasing taxes as you could be increasing public spending.

I think one of the tragedies of the late '30's was the fact that, whereas there was a rather half-baked and half-sold idea that government spending could work us out of the depression, at the same time the congress, with the tolerance of the Administration, was increasing taxes. What was necessary was a deficit, and by spending and then increasing taxes, you were, at the same time, offsetting your increasing expenditures and thereby increasing the socialized area of the economy, to say nothing of the effect on the business man, who, projecting his profits in the future, visualized still higher taxes, and therefore the spending itself did not have the stimulating effects it would otherwise have.

Question: Dr. Nugent, I take it from the remarks from the young man who spoke that he feels that industry is the cause of depressions and that industry controls Congress.

Gentleman referred to: I asked whether or not big business favors the full employment bill and the health bill, and so on. Those bills which would give the worker the security he needs.

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Dr. Nugent: I would answer it the same way. I do not see any control of present Congress by big business. There are the Congressmen whose philosophies lead them to favor big business and there are the Congressmen whose sympathies are directed toward labor's point of view.

I have been engaged in the study of social legislation for a good many years. I should like to make a comment, that we have received as much help from the silk stocking legislators as we have from labor, and that is nothing against labor. There are people in Congress who say, "Is it a decent, a good thing to do, and if so, I am for it."

Question: Dr. Nugent, going back to your savings theme, do I understand that you are rather opposed to individual savings when they get out of balance with the rest of the economy, but you are highly in favor of enforced savings through government deficits?

Dr. Nugent: I am sorry I have not made myself clear. I am not against saving. The individual must save; everyone must keep an adequate balance between incoming and outgoing money, and certainly it is safest to balance on the other side of a little surplus.

Benjamin Franklin made some pertinent remarks about the desirability of thrift. It seems to me one of the problems of the situation arises because the individual, under present circumstances, is compelled by his own self-interest—and again I am arguing that he is a rational being, and not completely as irrational. When his income rises relatively high, he saves more, but that our economic system is so geared through our dependence on the flow of money that a large volume of savings may be very dangerous if there is not, at the same time, a very large volume of investment.

I believe that it is doubtful whether the prospective volume of private investment which can be expected in the near future can offset the very high volume of savings which I would anticipate at current income levels.

Question: How does government spending tie in with that?

Dr. Nugent: The important thing is an expenditure which is not taken out of the current budget. If you have the very simplest sort of a monetary society, you have a situation in which goods are bought, and those expenditures for goods become the incomes of business men who, thereupon, pay themselves profits and pay their factors of production wages, rents, and so forth.

Having spent your consumer's income for goods, that income, in the form of proceeds of sale of what the consumer wants, becomes the income in the next period of business, to all the factors of production.

If so much money is paid out in dividends, wages, rents, commissions, and so forth, and all of that money is spent for goods, every dollar of it, then the incomes of business enterprises are equal to the

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amount spent for goods because they are the recipients of the processes of sales.

The business enterprise pays out its income in salaries, wages, commissions, rents, dividends, interest. If it pays it all out, there is again a transmission of the same amount of money that we originally started with, and the recipients of those salaries, wages, dividends, interest, and so forth, spend all their money again. You and I, who presumably spend our incomes for things we want, are the consumers. If they spend all their incomes, it again becomes the incomes of the entrepreneurs and the flow of incomes is even. The flow of money in the income circulation is even, but now somebody along the stage of transmission of incomes, instead of spending, saves, let us say, a hundred dollars of this income. Let us say he puts it in a bank.

Now, in order for that money to get back into the income circulation again, it is necessary for the bank to use that money or for the bank to lend that money for use in such away that it gets back into the income circulation.

If a business enterprise borrows the hundred dollars and buys a piece of machinery and charges it to their current expense, the savings have not been restored to the income circulation because that has had to come out of the operating expenses, and therefore deducted from the amount the business enterprise spends for dividends, wages, interest, and so forth. It is merely charged to operating expenses, and the hundred dollars has not been put back into the income circulation.

Question: The hundred dollars goes back to the company who sells the machine, is that correct?

Dr. Nugent: That is right, but it is not paid back. It has been treated as an expense. It was, first income, then it was saving, and now it becomes a part of the company expense, because they spent this much money for dividends.

Question: Suppose they amortize the hundred dollars for a period of twenty years?

Dr. Nugent: If they say, "This is a capital expense," and do not charge all of it to their current operating expenses for that period, then the amount they capitalize, namely, the amount of the price, less the depreciation reserve that is charged against it, the amortization that is charged against it, is an investment expenditure and is added to the total flow of incomes, because the income is spent in addition to what the company would otherwise disburse from its proceeds of sale.

Question: What happens to the hundred dollars, in making the machine?

Dr. Nugent: It goes out in the proceeds of wages, salaries, and so forth. If the government, on the other hand, spends borrowed

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money that does not come out of the taxpayers' pockets, then, whether that money is spent for a capital good, for new buildings, and so forth, whether it is spent for relief, that sum for which the government spends its budget is added to the total income flow.

On the other hand, if the government spends money that comes out of the taxpayers' pockets, that is, merely taking from one recipient of incomes and paying to another recipient of incomes

Question: Just one more point on that: in your first illustration that each one equals the other. Now, if that occurred, conditions would be entirely static, and there would be no possible chance of depressions. Is that correct?

Dr. Nugent: You would either have stable prices or stable production or increasing production or increasing prices

Question: If I understand the Proctor-Gamble plan correctly, it is something like this: in an effort to help themselves, in other words, to seek greater and more stable long-range profits, they studied how they could have the consumers and the dealers stabilize their purchases, and thereby an individual company was able to stabilize production and employment, in an effort to increase its own long-run profits. How extensively can that type of approach be used in industry?

Dr. Dewing: I am very sympathetic toward that kind of thing. That was what I meant by responsibility

I should like, in connection with that very thing, to say that, although I am in agreement with this process that has been explained about savings, I am quite out of agreement with all these schemes of enforced self-protection. I believe it is the responsibility of the individual to look after his own old age, he cannot throw the problem of his old age on to a beneficent bureaucracy. It is the responsibility of the individual to do that sort of thing, and going further, it is the responsibility of the individual corporation to take a long view and do what it can, to do exactly the kind of thing that the Proctor and Gamble Company have done quite successfully.

Some industries are in a position to institute that type of plan more easily than others. I happen to be interested in the utility industry. It is much easier for us to do that sort of thing, than, for instance, the manufacturer of candy or the manufacturer of wearing apparel. In other words, each individual industry, each individual himself, must study the problem so far as the problem affects him.

My suggestion was that it is the aggregate, it is the resultant of all those individual studies and those individual efforts and those individual responsibilities that, in my mind, give the key to the attempts to help ourselves in this business cycle problem.

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Dr. Nugent: I should like to indicate that I am wholeheartedly in agreement with that. Certainly, my feeling is that we will have to rely, in part, on government, but that does not in any way, lead me to think that it is not extraordinarily worthwhile for business to do what it can, and individual citizens to do what they can.

The economic system is terribly complicated, and most individuals are rather helpless in the face of the circumstances that confront them.

I should like to say this for the soap industry. Soap, of all the articles I know, has the least elasticity of demand. It is easy to stabilize soap consumption. As a matter of fact, the variation of soap consumption is somewhere between sixteen and eighteen pounds per capita, normally; and during the depression and bad years, it stays pretty much the same. The steel industry has another problem.

Question: Dr. Dewing, I have heard some very able business men in the durable goods industry say that they had explored all the possibilities they could think of in their own line of business, and arrived at the conclusion that one business cannot do much about the situation we are discussing. Then the question arises, "Can those particular businesses in any way inaugurate collective action?" Do you think that would be sound?

Dr. Dewing: I think it would be sound if they were sure of their facts and sure of the possibilities at which their action was focused, on which their action depended.

They might, however, initiate something that would make the situation a good deal worse. That is what they would have to look out for.

A Pattern For Industrial Peace

GEORGE W. TAYLOR

A. M. PAXSON

OPENING REMARKS

By

A. M. PAXSON

Director of Education
The Economic and Business Foundation

In opening this meeting, I would like first to express the appreciation of the trustees and subscribers of The Economic and Business Foundation to the officers and members of the Mahoning Valley Foremen's Association for making possible this joint meeting with the Foremen's Association, which happens to be the final session of The Foundation's American Economic Policy meetings and, likewise, the final session of the public forums on "Human Problems in Business and Industry" which The Foundation has sponsored during the past season in Western Pennsylvania and Eastern Ohio.

There was never a time in our industrial history in which there was a greater need for intelligent comprehension of management problems than at the present; nor was there ever a period which afforded greater opportunities for advancement of supervisory personnel than that which lies ahead. If those in management are to grasp the opportunities which this period affords they must have at their command an intelligent appreciation of current economic problems.

High on the list of economic problems which we must face in the months ahead is a resolution of the differences between management and labor, the development, as it were, of a pattern for industrial peace. It is our privilege to have as speaker and discussion leader this evening a person who is unusually well qualified by training and experience to approach this problem — Dr. George W. Taylor, Professor of Industry at the University of Pennsylvania, who, during the war served in Washington as a member of the War Labor Board, and as Chairman of the Board from March to October, 1945.

ADDRESS

By

GEORGE W. TAYLOR

Professor of Industry
University of Pennsylvania

I appreciate this opportunity to "talk things over" with the participants in this conference and to join them in discussing the ways by which the cause of industrial peace may be furthered. Our nation has high hopes that through voluntary agreements peace can be achieved among the nations of the world. It should be able and willing to work out ways and means by which differences between labor and management can be resolved by peaceful means and without widespread recourse to industrial warfare. This task is high on the agenda of things to be done in winning the peace.

The public stake in industrial relations is large, especially in these days when every interruption to production delays economic reconstruction of our country. The crippling failures of collective bargaining to be an effective substitute for work stoppages during recent months has led to a conviction in many quarters that the national labor policy as enunciated in the Wagner Act has been tried and has been found wanting. A nation aware of its unmatched power to produce a torrential flow of civilian goods, and conscious of the need to use this power now to the utmost, has tended to view each interruption to production as an obstruction which somehow ought to be eliminated directly and forthwith. No more serious domestic issue has been raised in these postwar months than the question as to whether government regulation and control of labor relations is the only way to insure industrial peace and protect the right of the community to live.

Cognizant of the impediments to maximum production and of the recurrent crises which can occur under present conditions, it is, nevertheless, my firm conviction that the sound way to industrial peace lies in building up the present national labor policy based upon free collective bargaining, the right of employes to strike and the right of employers to close down their plants. The industrial peace which we seek is much more than the absence of strife. That could presumably be approximated in a totalitarian state but at a cost which most of us consider excessive. The rights of which we speak are fundamental to the democratic way of living and working together.

What happens, however, when the exercise of their rights by either labor or management is so injudicious as to threaten the transcendent right of the community to carry on its work? That is the present labor relations dilemma. It can only be safely resolved if labor and management voluntarily work out arrangements, with any necessary cooperation of government, to see to it that such a clash of rights does not occur. For when a work stoppage actually threatens the right of the community to live, government intervention becomes unavoidable. There is no doubt as to how the dilemma will then be

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resolved. Each intervention necessitated by collective bargaining failures represents, however, an erosion of personal liberty and a sapping of the strength of voluntarism. Each intervention is an exercise in "crisis government" and a resort to opportunism in labor relations. The times call for labor and management to recognize the obligations and responsibilities which accompany their rights and which must be discharged if their liberties are to receive due protection.

A sound defense of collective bargaining and of the principles it represents cannot safely be confined to opposing government intervention. It must encompass a positive program by labor and management, assisted by government, for the full and conscious development of the agreement-making possibilities of collective bargaining.

Among the purposes of the National Labor Relations Act was the eradication of inequities to which employes had been subjected in their efforts to organize. An increase in the economic power of employes was deemed essential to provide them with an "equality of bargaining power." The objective was obviously not to insure bigger strikes between more evenly matched adversaries. It was to create a national labor policy under which collective bargaining would become a substitute for industrial warfare. Take a look at the Wagner Act. It states, in part, "Experience has proved that protection by law of the right of employes to organize and bargain collectively . . . safeguards commerce . . . by encouraging practices fundamental to the friendly adjustment of industrial disputes . . ." Can collective bargaining really be developed as an effective substitute for industrial warfare? If not, an underlying concept of the Wagner Act is erroneous. I do not believe it is erroneous. It has become apparent, however, that labor, industry, and the government have to give conscious direction and effort to the development of the agreement-making function of collective bargaining if it is to do the job assigned to it. Collective bargaining is not self-effectuating and it cannot be expected to come into its own without much work and great effort. Nor can it carry out its appointed function unless both labor and management seek agreements without work stoppages as the primary objective of their relationship and view every use of industrial warfare as a mark of failure.

Does the suggested program appear to be on the theoretical side and impractical? I would have hesitated in advancing it five or six years ago, but have done so tonight with real assurance derived from the experiences of the past ten years. The development of the agreement-making functions of collective bargaining over these years has actually been both rapid and significant. The effectuation of the national labor policy set forth in the Wagner Act has not been at a slow rate at all. The progress made appears to be inadequate primarily because of the great need for uninterrupted production which followed the devastation and maladjustment of World War II. This calls for an accelerated program.

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Fulfillment of the national labor policy based on free collective bargaining was inevitably a long-run proposition. Collective bargaining presupposes that employees will organize into unions. When the Wagner Act was declared to be constitutional, in 1937, relatively few workers were union members. The first phase of the development of the national labor policy, organization for collective bargaining, accounted for most of the history of the labor movement since 1937. These were years, moreover, in which the normal development of collective bargaining was partially suspended because of the urgencies of war. Although collective bargaining has been under way in some industries for a long time, it is well not to overlook that its adoption as a national institution and its application to mass production industries is quite a new proposition in the United States.

Highly significant strides have been made, nevertheless, in developing the national labor policy to the cause of industrial peace. There is a long way to go, but a long way has already been traveled. When collective bargaining failures are now page one news and a matter of national concern, objective appraisal of the state of labor relations cannot lightly dismiss significance to the thousands of labor agreements which have been consummated in recent months without work stoppages. Nor should there be any failure to note the restraint which was exercised in negotiations for such agreements. Many unions voluntarily recognized their responsibility for adhering to that earlier national policy under which demands for wage increases were to be moderated by the need for maintaining price ceilings. If collective bargaining proved to be immature in some situations, it displayed great strength and vitality in others.

Other signs of progress can be pointed out. Not many years ago, the typical strike was over the right of employees to organize into unions. This was the issue which even overshadowed all economic demands. As late as the 1930's the great labor victories were won when an employer signed his name on the same piece of paper as the union representative. I recall that during the NRA days some strikes were settled by the use of two pieces of paper. Each party to the labor dispute would separately enter into an agreement with the NRA covering terms of employment in a plant, but this would presumably not represent any agreement between them. It is hard to realize that such issues were critical only about ten years ago.

It was the organization strike to secure employer recognition of the union which accounted for most of the bitter industrial conflicts of past years. Many persons resigned themselves to the inevitability of determining such issues by trial of battle despite the vast economic losses which resulted. Since 1937, however, the industrial election has been effectively developed as a substitute for the organization strike. This stands out as one of the most notable achievements in the quest for peaceful methods for resolving labor disputes. I like to think of the industrial election as a technique by which a previous non-

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arbitrable matter was made arbitrable. Significance attaches, I believe, to the idea of the secret ballot and majority rule because these were the objective bases which made it possible to settle these disputes by peaceful means. Before the election technique, a union could usually secure recognition only by exercising economic force. Now it faces the necessity of inducing a majority of the employes to mark X after its name in a secret election.

The development of peaceful ways to settle labor disputes has already been given great impetus in another area. After a labor agreement is made, collective bargaining is the process by which daily problems arising at the workplace are resolved in relation to the terms of the agreement. The application and administration of the agreement to the day-by-day problems is a vital aspect of collective bargaining. Labor disputes over grievances can lead to wild-cat strikes and cause grave economic losses to all parties. Plant shut-downs are a costly way to resolve these issues. Industrial warfare of this type is usually a symptom of a basically unsound collective bargaining relationship or of a defective grievance procedure. Neither situation can be ignored and fortunately there is a well-established practice to be followed. Within the past several years, the grievance procedure has been intensively developed throughout American industry. Provision of a terminal point in the grievance procedure has become standard procedure; usually an impartial chairman or impartial umpire is designated. The widespread use of such arbitration peacefully to resolve disputes over the administration and application of a labor agreement represents another significant step forward in the quest for industrial peace. At the Labor-Management Conference held in Washington last November, it was unanimously agreed that "Collective bargaining agreements should contain provisions that grievances and disputes involving the interpretation or application of the terms of the agreement are to be settled without resort to strikes, lockouts, or other interruptions to normal operations by an effective grievance procedure with arbitration as its final step." There is still much to be done to develop this type of arbitration, but there is a common understanding about the way to achieve peaceful methods for resolving these kinds of labor disputes and for insuring the mutual assumption by unions and by management of their responsibility to live up to the terms of the agreement.

There is no longer any need for stoppages of production as a result of labor disputes over representation questions or grievances if proven and accepted arbitration techniques are employed. Stoppages of production resulting from work jurisdiction disputes or from attempts to use general strike tactics remain as problems yet to be solved. It is not my purpose to go into these particular questions at this time. Important though they may be, they are not nearly as significant as the need to minimize resort to industrial warfare to resolve issues over the terms of future agreements, particularly over wage issues. This

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constitutes the next great challenge to be met in the quest for industrial peace.

What can labor and management do to minimize work stoppages over the terms of future agreements as they develop collective bargaining as a substitute for industrial warfare? What policy should government adopt to assist labor and industry in carrying out their obligations? Answers to these two questions can provide the essential basis for a postwar labor policy based upon the broad policy enunciated in the Wagner Act.

Labor and management and not the government have the primary responsibility for developing the agreement-making functions of collective bargaining. The indicated attention to how negotiations can be more effectively conducted to this end includes, among other things, consideration of the place of industry associations in collective bargaining in the mass production industries. There should also be an objective appraisal of how labor-management agreement can be made, at both national and local levels, to establish basic principles of industrial relationships in order that the range of differences in individual negotiations may be narrowed. The recent labor-management conference had real significance in this connection. Its final report may well be viewed as basic materials. These and many similar activities which can be constructively undertaken cannot be discussed at this time. I would specifically suggest, however that neither labor nor management has as yet assumed the responsibility for fully exploring the conditions under which voluntary arbitration can be used to resolve disputes over the terms of future agreements.

At the labor-management conference of 1945, it was unanimously agreed that "if direct negotiation and conciliation have not been successful, voluntary arbitration may be considered by the parties." In my judgment, in view of the needs of the country for uninterrupted production, this resolution should have been made in stronger terms. The disputants have a distinct obligation to the public thoroughly to explore the possibilities of settling these issues by voluntary arbitration before they take the drastic step toward industrial warfare. I have no doubt but that such an exploration of the arbitration route would, in itself, lead to more agreements and fewer work stoppages especially if the parties followed the guides for such arbitration set forth by the labor-management conference. It was unanimously agreed that when such arbitration was utilized "the parties themselves should agree on the precise issues, the terms of submission, and the principles or factors by which the arbitrator should be governed."

A highly useful distinction can be drawn from this resolution of the labor-management conference between what might be termed "open end" or unrestricted arbitration and arbitration conducted on the basis of terms and criteria agreed to by the disputants. In unrestricted arbitration, the third party decides a case on that basis which appears to him to be fair and equitable. Since individual judgments as to fair-

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ness and equity vary widely and are unpredictable, the risks of such arbitration may be excessive to both parties. The risks can be minimized, however, if the third party is called upon to decide a case on that basis which the parties themselves agree is fair and equitable. It has been my experience, moreover, that the very process of examining the various criteria which could be used in arbitration frequently makes it possible for the parties to resolve their differences directly.

Voluntary arbitration is in the American tradition and its use by management and labor should be encouraged and assisted in every proper way by the labor program of the government. Disputants who really want to arbitrate might find it difficult to do so today because of the lack of available and generally acceptable arbitration machinery. There is an urgent need for arbitration machinery for the voluntary use of labor and management. It could be developed locally for local cases and nationally for industry-wide cases. The parties could then use such machinery at their discretion for the carrying out of any voluntary arbitration agreement they might make. The mere availability of machinery of this sort could prove of inestimable value in making it possible for disputants to choose peaceful methods to settle their differences. But great care is called for in the establishment of such machinery so that the arbitration becomes an adjunct of collective bargaining and not a substitute for it. It can best be established by an agreement of labor and management in which the necessary safeguards are set up.

Government fact-finding boards could also be created to support the development of collective bargaining as a substitute for strikes. The country has a right to expect labor and management to use every reasonable effort to resolve their differences without disrupting the life of the community. There may be cases, however, where one or the other party to a dispute feels compelled to resort to economic force. A government fact-finding board could then be useful as a body to which each side could report to the public why, in its judgment, a stoppage of production is unavoidable. Deferment of the right to strike and delving into company books need not be entailed, and the fact-finding board should not have the right to make recommendations. It would receive those facts which each party elected to give in support of its position. Such accountability to the public interest would not only emphasize the agreement-making responsibilities of labor and management, but would be a strong deterrent against precipitate action where either party sought to escape the duty to engage in collective bargaining.

The suggestions just made may seem quite inadequate to those who believe that some magic formula can be devised to insure industrial peace. Even an approximation of that utopian state of affairs has to be earned the hard way by soundly conceived long-run policies intelligently carried out. And an emphasis upon voluntarism as the basis of these policies stems from a very fundamental principle:

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the right of employes to strike and the right of employers to close down their plants, are so basic to our way of life that their restriction or qualification should be made by voluntary agreement of those affected. The very protection of these rights now involves the question as to whether labor and management should consider making such restrictive agreements under terms which are mutually acceptable to them. This question is very much to the fore, for instance, in the public utility industries. A stoppage of production in such industries almost immediately reacts upon the right of the community to live its life. Responsibility to the public means that labor and management in these industries are called upon to make more than ordinary efforts to work out agreements for the peaceful settlement of their differences. They could set up stand-by machinery to insure that any disputes which might arise in the future would be handled without interruption to production. Perhaps no more important subject could be placed upon the agenda of negotiators in public utility industries. Nor is this a novel idea.

Voluntary agreements between labor and management for machinery to minimize stoppages over future disputes have already been satisfactorily used in the search for industrial peace. One notable agreement of this type resulted in the National Mediation Act for the railroad industry; another in the National War Labor Board which functioned throughout World War II. It is not suggested that the particular machinery in either case can be applied to any other situation, but it is pointed out that such a subject is properly within the scope of collective bargaining. I am also informed that there is considerable experience with labor contracts covering some printing trades and some local transportation systems in which the parties have agreed in advance that any failure on their part to work out renewal terms will be followed by an extension of the old contract. Such voluntary restrictions of the rights to strike and to lockout are not likely to have widespread applicability. It seems, however, that they should be given the most careful consideration by the negotiators of contracts in the public utility industries.

A very long time ago, Plato observed that "creation is the product of persuasion." This is particularly true in the field of labor relations. There is no short-cut fiat which can be adopted to achieve industrial peace any more than peace among the nations of the world can be attained by some easy exercise in semantics. In the creation of a national labor policy based upon democratic principles, the point has been reached where labor and industry, with assistance from the government, have the task of developing the agreement-making function of collective bargaining. This is not an easy task to undertake. It calls for new attitudes and the use of unprecedented techniques. There are still some persons on either side of the conference table who would prefer to avoid these arduous responsibilities by having the government regulate or even control labor relations. This sort of thinking, inadvertent or not, seems to be much more in line with the ob-

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jectives of the extreme left or of the extreme right than in conformance with the goals of democracy. That is perhaps the most important reason why labor and management, as well as the country as a whole, has a vital stake in developing the agreement-making functions of collective bargaining.

Since it takes two to make a bargain, the times call for a highlighting of those interests which management and labor have in common in each industry and in each plant. The points where their interests conflict have been quite clearly delineated and very widely understood. They have a mutual interest, however, in facing up to the problem of how a collective bargaining system can be created which involves a minimum of government direction. In the years not so far ahead, moreover, competitive forces will again bear heavily upon the marginal concerns. The position of the high cost concern, of course, does not usually arise only from its wages and its labor costs. But, stockholders and employes both have a major interest in improving the competitive position of their company by every reasonable means including efficient collective bargaining arrangements. There is truly a vast collective bargaining job to be done in the area where employe and management interests are common. The accomplishments already achieved give a basis for the hope that the march of progress will be forward in the development of collective bargaining.

As we move further into the postwar years, it has become apparent that what we won through the war was a chance to develop the real power and strength of the democratic process for the building of a peaceful world. It can be said, therefore, that collective bargaining is on trial. But, more fundamentally, we are on trial.

DISCUSSION

Question: Does Dr. Taylor think there is any danger of the industry in this country becoming nationalized like it is in England?

Dr. Taylor: I think we will get the great threat of that when we get the next depression. The greatest problem that America faces is still the avoidance of mass unemployment in the years to come. It seems to me that whether we are able to preserve the kind of country that we love depends on the severity of the next depression, upon our ability to avoid it, and our ability to minimize the effects if it comes. I would not be so pessimistic as to forecast that we will fail. I have every confidence we will pass through it successfully.

Question: Do you think that as long as we have paid union executives we will have labor troubles?

Dr. Taylor: No, I do not. I think there is a lot of misconception about the function of the paid union executive. I know there is politics in the union ranks. That is true wherever you have three or four together. It is true inside corporations. I think the labor leader is often pretty badly maligned. In the mass production industries we only started to develop collective bargaining a few years ago. The whole battle in American history until recent years has been whether people were to have the right to organize. In many industries unions have developed a department of war to a much greater extent than they have developed a department of state. I think the department of state development is still to come. During the war a most significant job was done by labor leaders taking the initiative in fighting for the no-strike pledge and the return to work. Lots of them made themselves expendable by what they did. With one or two exceptions there was no flinching in meeting that problem. The strikes you could not get settled were strikes by independent unions, where you could not go to a national president and say, "Look, get them back."

The paid union leader has a definite place in collective bargaining but I think he should be matched in bargaining by people of equal ability on management's side. It is management's own fault if they are out-manuevered and outbriefed, and in a good many cases that is what happens. A lot of industries and a lot of small companies have to develop their own associations so that they, too, have expert people to present their case. I have high regard for the wartime job that was done by most of the labor leaders in this country. I do not know what we would have done without them on the no-strike pledge.

Question: We recently had this problem. Our shop grievance committee, while they will tentatively agree to the settlement of a grievance, they have to receive the approval of the International Representative and in our last several grievances they were answered by his saying it was not satisfactory, "We demand this." Therefore, the shop committee rejected it after tentatively agreeing.

Dr. Taylor: Yes, you sometimes also get the same kind of problem on the other side where a foreman does not have the final authority to settle grievances when they come up. A settlement made by the foreman is sometimes overturned by somebody else further up. I am

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against that, too. The foremen and supervisors have to have authority to settle grievances to a minimum and get them settled at the workplace, where it should be done. I think you put your finger right on a problem on both sides that needs very careful attention.

Question: You spoke at some length on the subject of an impartial umpire. It seems to me that in our social experience it has been definitely established that impartiality of any process such as you recommend, must be protected by some prescribed rules. For example, impartiality of our Supreme Court is guaranteed by the laws which define the limits of their authority and circumscribe the discretions that they are allowed to exercise on the bench. It seems to me to establish an impartial umpire without such prescribed limitations, without a set of laws or regulations which define precisely the limits of his discretion is impractical.

Dr. Taylor: There is no doubt about that. You have only to look at the Labor-Management Conference recommendations on use of an umpire, to know that you have to limit authority. You must have a clause in the contract which says an impartial chairman has no power to modify, change, add to or subtract from, the agreement. He cannot be a substitute for collective bargaining. But you have a better protection. Any time the impartial chairman's decision is not acceptable to both sides he quits. He can also be kicked out at any time. All it takes is one side or the other to not accept his decision.

Question: I would like to ask Dr. Taylor whether he believes there will be a trend toward government regulations of unions with regard to defining their responsibilities to the public as corporation responsibilities have been defined.

Dr. Taylor: Yes, if they abuse their rights there will be laws passed. I have talked to a lot of labor leaders who say, "Sure, we have great power. If we were smart, we would step out and make our own bill for regulating unions." A lot of them will tell you such things privately. But there are a lot of other labor leaders just as convinced that they cannot move in that direction without making themselves vulnerable because not proper regulation but crippling regulation will come out of the legislation. There is a great deal of fear in their minds, and justifiable in some cases, that an effort to have proper regulatory laws would be a signal for crippling legislation. On both sides, there are great fears. Within the union you have a lot of people who say: "Our positions are still not secure. We think a lot of employers would like to smash us." I personally do not believe it. I think that by and large the employers have come to realize that collective bargaining is here to stay. There is a fear on the company side, however, that matches the union fear and that is that the aim of the union is to take over management functions. I was very much impressed by the effort of Eric Johnson, about a year ago, to secure an agreement between industry and labor where labor would agree that management had certain functions and the company would agree

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that the union had a place. That really hit at those basic fears. If we could do that we would have a green light to go ahead and do a more constructive job.

Question: For a long time whenever we had a depression wages were cut on a percentage basis. By the same token, when we had inflation, wages were raised on a percentage basis which leaves the steps in the standard of living relatively the same. In the last three or four years there has been a tendency to make very definite money raises which has narrowed the steps in the standard of living. How will this influence our future economy?

Dr. Taylor: When the Wagner Act came in it really brought organization in mass production industries instead of just by craft. Before the Wagner Act we had a lot of craft organizations, each bargained percentagewise. This problem of getting the right to organize was a pretty tough one, and as a phase of the organization drive, the "across the board" wage increases came into effect so that everybody would get something and everybody would get the same amount. It was really a phase of the organization effort. In the "across the board" increases you not only have the problem of differentials higher up, but you retain all the internal wage relationships which were far out of line in many plants. American industry failed to get proper balance in the wage rate structures. I think we have to get away from the five cents, ten cents, or eighteen cents across the board point of view.

The second thing happened during the war when we were tightening our belts, when the cost of living went up and we had a wage stabilization program. The low paid people suffered greatly because of the 33% increase in the cost of living, because most of the money of this group goes for food and food went up 40% to 50%. Across-the-board increases were therefore established in recognition of the impact of cost of living on low paid people at the time when folks had to make sacrifices. It was for that reason that the War Labor Board continued the across the board increase. You have the same thing coming up in minimum wage legislation. During the war, the biggest wage increases were gotten by piece workers. The next best were those working under rate ranges. The toughest burden was carried by those who were on single rate hourly rates. I think the piece worker gained during the war for a lot of reasons that you and I know about. A lot of increases were made my misclassification during the war. The manager of an aviation plant, which I visited near the end of the war, asked, "What would you most like to see in this plant, what could we show you that would startle you most?" I said, "A common laborer." They were all helpers, handymen, or something. There was a lot of that during the war.

You are quite correct—across the board increases in pennies per hour disturbed the percentagewise differentials while it maintained the penny differentials.

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Question: Do you think that is indicative of a new trend, namely, if you want to earn more money you must get it by getting more money per hour, rather than working toward a better position or promotion?

Dr. Taylor: No, I do not think so. Man does not live by bread alone, although that is important. I think folks want a job that gives them an opportunity to be creative. I think the craftsman will come into his own. I think that is why in the United Automobile Workers, for example, you hear it said, "Here is a skilled trade department which can't continue to get across the board increases." This industry has a particular problem. In it you find the maintenance workers saying, "We didn't get a right to deal." That is why you find the growth of crafts within the productive workers union.

Question: I think you once said you believed in evaluation of jobs, one job as compared to another?

Dr. Taylor: I sure do.

Question: In the shop or business, or wherever it may be?

Dr. Taylor: Yes, I think one of the finest examples of collective bargaining I have seen was in the steel industry where they have agreed, in the Gary operation at least, on job descriptions for every job in that plant. Company and union have agreed on the classifications that should prevail and the assignment of every one of the jobs to the classification. The reason this is so important, job evaluation or whatever you want to call it, is that before the war people would agree to take five cents across the board and keep all the present rates as they were and if anybody was dissatisfied with an individual rate he can make a grievance out of it. We started trying to get a balance wage rate structure by taking up individual wage rate grievances, but soon found that where you settled one grievance there were two more registered. It was impossible to get a balanced wage rate structure by taking up individual rate grievances.

In one of the meat packing plants, both sides, the union and the company, said that by having every rate subject to change by way of grievance procedures 95% of the rates came up for consideration. Everything was in a state of flux, the union could not handle it, nor could the company handle it. Most of the unions I talk to came to the conclusion you had to have a wage scale you could agree upon to continue for the duration of the contract. That is why so much attention was directed to classification and job evaluation. It was to get a wage scale on which you could agree. Then the only rate grievance you have in the operation of the contract are new jobs which were not provided for initially or for changed jobs.

Question: To be desirable I assume it would be necessary for the union officials or those in charge of the union affairs in your company to agree to such a program before it was started; you would not dare try it without their approval, would you?

Dr. Taylor: Yes, I would not try it without joint cooperative effort.

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Question: Do you think management will include the supervision force in their job evaluation plans?

Dr. Taylor: I think they ought to. It is more difficult to get job descriptions of supervisors and executives because they do not fall in the same pattern, but it was my experience during the war that what upset people most was not that John Jones who works in another plant got more than they did. You can understand that, because it is traditional; there are factors between plants. I do not think they were upset about plant differences as much as they were about working next to a fellow in the same plant, doing the same job, and getting a different rate. That is an explosive issue.

If you do not have a proper payment for service rendered, you will have trouble. Most managements have realized that supervisor jobs have to be valued and supervisors have to get proper compensation in relation to the productive workers. They are thoroughly aware of that problem, most of them.

In evaluation of the performance of supervisors you have more intangibles than you have with workers. Most evaluations of productive workers have failed when it was said, "We'll give production ten points, tardiness ten points, cooperation fifty points and potentiality thirty." Such a weighting does not work out so well. They have to eliminate subjectivity from being such a compelling part in the evaluation of the productive worker's job; you have to make it as objective as you can. You cannot make it entirely objective, especially in a supervisor's job. It is a more difficult evaluation to make, in my judgment. For instance, take the ability to get along with people, everybody thinks they are a world-beater in getting along with people, but there are differences between folks, and it is very difficult to get mathematical evaluations of those factors which are important in the supervisor's task.

Question: What do they use as a yardstick for such evaluations of supervisors?

Dr. Taylor: The job ratings that I have seen have been those that have put the rating in terms of output, performance, quality of goods, and volume of goods. The more you can emphasize those factors the better off you are. The usefulness of objective measures has not been exhausted at all in supervisor ratings. I think the performance of the men under them is the key to evaluation, if you are going to have it on an objective basis.

Question: Where do your intangibles come in?

Dr. Taylor: Your intangibles do enter into the picture, but I think you should weight them less than the tangibles. If you have your intangibles 80 and tangibles 20, anything could come out.

Question: Does the policy of rating workers on the basis of their productiveness occasion dissatisfaction among maintenance workers?

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Dr. Taylor: No, I think the wage rates for maintenance workers is something like this: Before the war everybody recognized that a painter in a plant was paid less than a painter on a construction job because he had steady work and the construction worker had seasonal work. You had a differential between the two for that reason. During the war the construction painter had steady work and the maintenance worker said, "I'm just as good as he and we both get steady work." Some companies brought in outside people to do a paint job who worked alongside of a maintenance man at widely different rates. You could not say one gets steady work and the other does not because they all got steady work during the war. Most of the complaints arising during the war in this area arose from that situation.

Question: Do you think this wave of strikes is an aftermath of the war and will diminish as time goes on?

Dr. Taylor: If we are sensible in what we do now to resolve the next threat of strikes, if we are able to set up peaceful means, the parties will have a disposition to settle their differences peacefully next time. This slugging match did not turn out to be as pleasant as people thought it would be. We can avoid another round of strikes, I am convinced of that.

Question: Do you think that both sides have learned something from the events of the past few months?

Dr. Taylor: They sure have. Those people who used to come into my office before the war and say, "Oh, boy, am I going to show them up," and looking hopefully to that time when they could go into battle royal, you can be sure they are crestfallen at the moment.

Question: I am thinking in terms of General Motors and U. S. Steel, where the demand was far in excess of what they could pay in many instances.

Dr. Taylor: I would think that both would prefer to settle their problems themselves and keep the government out of it.

